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TREASURY CIRCULAR MUN NO. 6/2023

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THE COMBINED ASSURANCE FRAMEWORK

1. PURPOSE

This circular serves to issue the Western Cape Provincial Treasury Municipal Combined Assurance Framework (CAF) to municipalities, to guide the development, implementation, and enhancement of combined assurance in local government.

2. BACKGROUND

Provincial Treasury, together with municipal Chief Audit Executives identified that practical guidance is required regarding the effective implementation of combined assurance within Western Cape municipalities. Drakenstein Municipality was selected to pilot the implementation of combined assurance. A service provider was appointed to conduct the pilot implementation, funded by the Western Cape Financial Management Support Grant. A key deliverable emanating from the pilot was the development of the CAF to be shared with all the municipalities as a basis for implementation.

The CAF was disseminated for review to municipal Chief Risk Officers, Chief Audit Executives, National Treasury and the Western Cape Department of the Premier. All review comments were duly considered, and the CAF was revised accordingly.

REQUIRED ACTION/WAY FORWARD

The following actions are required by municipal officials delegated to coordinate the combined assurance activities within their respective municipalities:

- Study the contents of the CAF;
- Compare and align existing municipal combined assurance frameworks with the CAF and ensure that it supports the needs and objectives of the municipality;
- Provide regular feedback on implementation of combined assurance at the municipal Chief Risk Officer's Forum and Chief Audit Executive Forum.

Provincial Treasury will monitor combined assurance implementation through the annual Financial Management Capability Maturity assessment process.

MR AZIZ HARDIEN
CHIEF DIRECTOR: FINANCIAL GOVERNANCE AND ACCOUNTING



**Western Cape
Government**

Provincial Treasury

Combined Assurance Framework

Date: April 2023

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Introduction

1. According to the Local Government Risk Management Framework of 2021, Combined Assurance is defined as “a process that seeks to optimise the scope of assurance to the Institution by harmonising the work of various providers of assurance through eliminating fragmentation and duplication of efforts.”
2. Combined Assurance provides a coordinated approach to all assurance activities to ensure that assurance provided by the various assurance providers adequately address significant risks facing the Municipality and that suitable controls exist to mitigate and reduce these risks. These assurance providers, amongst others, are as follows:
 - 2.1 Management;
 - 2.2 Internal assurance providers (Inter alia, Risk Management, Compliance Management and Legal Services); and
 - 2.3 Internal Audit,
 - 2.4 External assurance providers (Inter alia, External Audit and Regulators),
 - 2.5 Audit Committee.
3. Integrating and aligning assurance processes in the Municipality will enable maximising risk and governance oversight and control efficiencies, and optimise overall assurance to the Audit Committee, considering the Municipality's risk appetite. This will enable management to assign resources efficiently to mitigate the risks to an acceptable level, identify who is responsible for each risk and enhance accountability.

Purpose

4. The purpose of the combined assurance framework is to enable improvement and sustain performance by enhancing the system of risk management and combined assurance within the Municipality to protect against adverse outcomes and optimise opportunities.

Regulatory Context

5. The Combined Assurance Framework has been developed in terms of the following prescripts:
 - 5.1 The Constitution of the Republic of South African, 1996;
 - 5.2 The Municipal Finance Management Act (MFMA), Act 53 of 2003;
 - 5.2.1 Section 62(1)(c)(i) and 95(c)(i) of the Municipal Finance Management Act (MFMA), which require the Accounting Officers to ensure that their municipalities and municipal entities have and maintain effective, efficient and transparent systems of financial, risk management and internal control; and
 - 5.2.2 Section 20(1)(b)(iv) of the MFMA, which empowers the Minister of Finance to prescribe uniform norms and standards in terms of this Act.

Best practice frameworks

6. The framework incorporates the requirements of the Batho-Pele principles, the Local Government Risk Management Framework (Issued 2021) and the King IV Report on Governance for South Africa, 2016; insofar as they concern risk management and combined assurance. King IV has specific guidance for municipalities, included in Part 6.2 - Supplement for municipalities.
7. The South African King codes on corporate governance is observed as one of the leading governance codes competing favourably with other international codes, also regarding its reference to risk management and how it should be dealt with within municipalities. King IV (Principle 11) addresses the responsibility of risk, mostly as these pertain to Councils and its subcommittees. Councils inter alia should:
 - 7.1 Be responsible for the governance of risk;
 - 7.2 Determine the levels of risk tolerance/appetite;
 - 7.3 Establish a Risk Committee or Audit Committee to assist Council in carrying out its risk responsibilities; and
 - 7.4 Delegate to management the responsibility to design, implement and monitor the risk management plan.
8. The King IV (Principle 11) also addresses the management of risk, whereby Council should ensure that:
 - 8.1 Risk assessments are performed on a continual basis;
 - 8.2 Frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks; and
 - 8.3 Management considers and implements appropriate risk responses.
9. King III initially developed a combined assurance model that covered the traditional three lines of defence - management control, risk control and compliance oversight functions, and independent assurance. King IV has changed the focus to "five lines of assurance" to incorporate more role players, with an even greater emphasis on providing combined assurance. Under combined assurance, the assurance is provided by risk and opportunity line functions, specialist functions, Internal Audit, External Assurance providers as well as the Audit Committee.
10. The King IV report addresses the monitoring, assurance, and disclosure of risk, whereby Council should:
 - 10.1 Ensure continuous risk monitoring by management;
 - 10.2 Receive assurance regarding the effectiveness of risk management processes; and
 - 10.3 Ensure that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders.
11. King IV recommends that Council should appreciate that the core purpose of the municipality, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process. Council should:
 - 11.1 Assume responsibility for municipal performance by steering and setting the direction for the realisation of the core purpose and values through its strategy;

- 11.2 Delegate the formulation and development of short, medium and long term strategy to management;
- 11.3 Approve the strategy by considering:
 - 11.3.1 The timelines and parameters of the short, medium, and long term;
 - 11.3.2 The risks and opportunities relating to the municipal environment; and
 - 11.3.3 The various forms of capital supporting the strategy.
- 11.4 Oversee whether the Municipality frequently and continuously assess the negative consequences of its activities and output; and
- 11.5 Be alert to the general viability of the Municipality with regard to its capital resources, its solvency and liquidity and its status as a going concern.
- 12. King IV (Principle 15) suggests that Council should assume responsibility for assurance by setting the direction concerning the arrangements for assurance services. It should also oversee that a combined assurance model is designed and implemented to effectively cover the significant risks and material matters of the municipality through a combination of assurance providers. King IV further recommends that Council should delegate the responsibility to the Audit Committee to establish a combined assurance model to achieve the objectives of:
 - 12.1 To assume responsibility for municipal performance by steering and setting the direction for the realisation of the core purpose and values through its strategy;
 - 12.2 The integrity of information used in decision-making; and
 - 12.3 Supporting the integrity of external reports.
- 13. The International Standards for Professional Practice of Internal Auditing (Standard 2050) prescribes that the Chief Audit Executive should share information and co-ordinate activities with other internal and external providers of relevant assurance and consulting services to ensure proper coverage and minimize duplication of efforts.

Benefits of Combined Assurance

- 14. By effectively implementing combined assurance, a number of tangible benefits will be derived, including:
 - 14.1. Assurance activities that produce valuable integrated data and reporting, across different risks, processes and information technology systems;
 - 14.2. Reduction in repetitive reports to and by different role-players and enhancing improved and efficient reporting and oversight;
 - 14.3. Reduction in assurance costs through elimination of duplication and improved resource allocations;
 - 14.4. Minimise business and operational disruptions;
 - 14.5. Comprehensive and risk-based approach in tracking remedial actions on identified opportunities and risks;

- 14.6. Optimised assurance spent in that auditors are assisted in giving opinions on residual risk status, prevention of assurance fatigue, minimised overlap between the lines of defence, and the prevention of possible 'blind spots'; and
- 14.7. The use of combined assurance to support the Audit Committee and Council in making their control statements in the annual report.
- 15. Combined Assurance will add value to the Municipality by:
 - 15.1. Providing an understanding on who all the assurance providers are;
 - 15.2. Providing a realisation of what is assured;
 - 15.3. Providing information that is reported within the governance structures;
 - 15.4. Allowing alignment of assurance to the critical risk exposures;
 - 15.5. Ensuring coordination of the assurance activities; and
 - 15.6. Ensuring consolidation of the risk and assurance profile.

Correlation with risk management

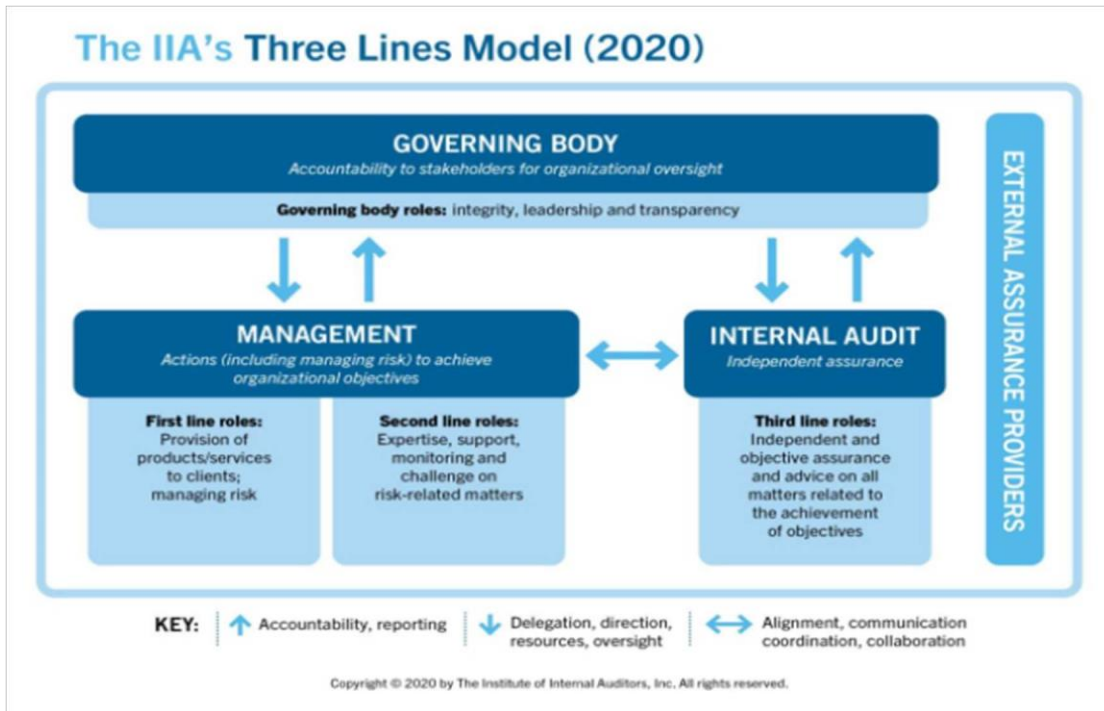
- 16. Risk management is a systematic, co-ordinated and inclusive process which uses the Institution's strategy and objectives as the focal point to manage the range of risks and optimisation of opportunities to enhance the achievement of the strategy and objectives. When properly executed, risk management provides reasonable, although not absolute assurance, that the Municipality will be successful in achieving its goals and objectives.
- 17. The National Local Government Risk Management Framework, ISO 31000 standards and COSO risk management frameworks are recognised as providing the best practice guidance on risk management.
- 18. Municipalities are bound by their constitutional mandate to provide services or products in the interest of the public. No municipality has the luxury of functioning in a risk-free environment and municipalities are especially vulnerable to risks associated with fulfilling their mandates.
- 19. The public sector environment is fraught with unique challenges such as inadequate capacity, excessive bureaucracy and silo mentality, limited resources, competing priorities and infrastructure backlogs. Such dynamics increase the risk profile of the public sector as a whole and place an extra duty of care on public sector managers to contain risks within acceptable limits.
- 20. Risk management is a valuable tool which increases a municipality's prospects of success through minimising negative outcomes and optimising opportunities. Local and international trends confirm that risk management is a strategic imperative rather than an option within high performing municipalities.
- 21. High performing municipalities set clear and realistic objectives, develop appropriate strategies aligned to the objectives, understand the intrinsic risks associated therewith and direct resources towards managing such risks on the basis of cost-benefit principles.
- 22. The MFMA clearly requires that municipalities must implement and maintain effective, efficient, and transparent systems of risk management and internal control.

23. The underlying intention is that municipalities should achieve, among other things, the following outcomes needed to underpin and enhance performance:
 - 23.1 More sustainable and reliable delivery of services;
 - 23.2 Improve governance on Council, Accounting Officer and Senior Management level by:
 - 23.2.1 Establishing a reliable basis for strategic and operational planning and decision making underpinned by appropriate rigour and analysis;
 - 23.2.2 Efficiently allocating and using resources for risk treatment; and
 - 23.2.3 Improving operational effectiveness and efficiency.
 - 23.3 Innovation and a reduction in inefficiencies and waste;
 - 23.4 Prevention of fraud and corruption, unauthorised, fruitless and irregular expenditure;
 - 23.5 Better value for money through more efficient and effective use of resources; and
 - 23.6 Better outputs and outcomes through improved project and program management.

The Combined Assurance Model

24. The Institute of Internal Auditors recently adjusted their combined assurance model, and it was redesigned as the three lines model (previously known as the three lines of defence model). The model can be successfully applied to the municipal environment, as the role players can be grouped as follows:
 - 24.1. Council is the governing body who should take accountability to all stakeholders for organizational oversight. Their role is designed around integrity, leadership and transparency;
 - 24.2. Management will include the Accounting Officer, the executive management and the process owners in the first line roles. Their role is designed around the provisioning of products and services to their clients, establishing a system of financial management and internal control; and to actively manage risk within their areas of responsibility;
 - 24.3. Risk Management, Fraud Risk Management, Compliance Management, Occupational Health and Safety, Legal Services, Environmental Services, *inter alia* will operate as the second line and their role is designed around their risk management, compliance and monitoring expertise, and specifically around ongoing monitoring of risks and to challenge the first line on risk related matters;
 - 24.4. The internal auditors form the third line and provides independent and objective assurance and advice on all matters related to risk management, internal control and governance aimed towards the achievement of municipal objectives; and
 - 24.5. The External Auditors and Regulators (e.g., National and Provincial Treasury) are included as an additional source of assurance, although their legal mandate positions them outside the organization.

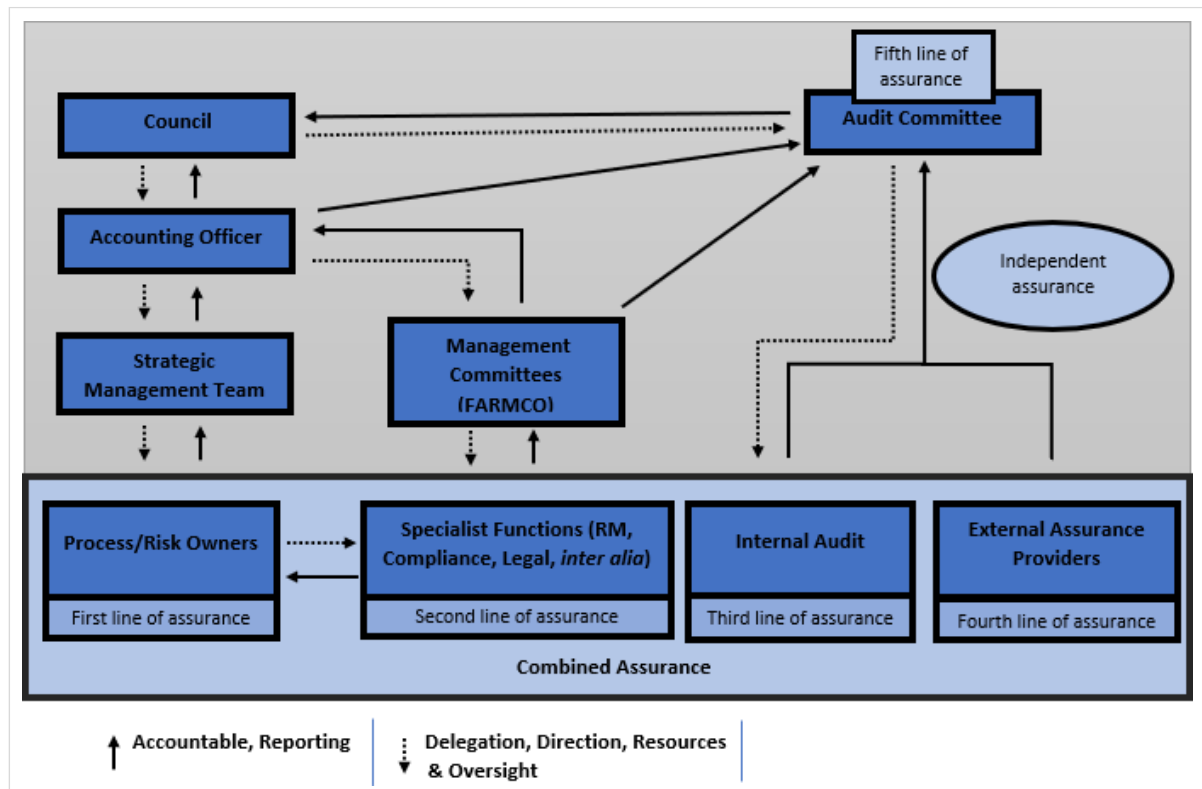
Diagram 1 The IIA's Three Lines Model (2020)



25. The relationships between the lines have also been documented. One key difference is the gearing towards the certainty of the achievement of objectives rather than a primary focus on reducing risk. It includes the following:
- 25.1 Council delegates responsibility to management, directs the organisation towards the achievement of its objectives, provides resources (assets, human and funding), and provides effective oversight. It also directs, through the Audit Committee, responsibility to internal audit, direct their audit plan towards a risk-based audit approach, provides resources and oversight regarding their effectiveness;
 - 25.2 Management reports to Council on pre-determined times and is held accountable for their responsibilities;
 - 25.3 Internal Audit reports to the Audit Committee on pre-determined times and is held accountable for their responsibilities; and
 - 25.4 External assurance providers and regulators, who are independent from the organisation, provide assurance to Council as well as senior management.
 - 25.5 The combined assurance approach targets improved coordination and communication of timely and accurate information to Council to aid in better decision making. It requires collaboration and high correlation to reduce duplication of effort and more cost-effective assurance.

26. The Five Lines of Assurance (5 LOA) model is a superior alternative to the 3 lines model as it addresses how specific duties related to risk and control should be assigned and coordinated within a municipality to have an increased likelihood of achieving its objectives. The diagram below illustrates the five lines as follows:

Diagram 2 Layers of the five lines of assurance



27. Under the oversight and direction of Council, the Accounting Officer and its 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.
28. 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 Accounting Officer and strategic management team to design and implement processes that:
- 28.1 Demonstrate commitment to integrity and ethical values;
 - 28.2 Exercise oversight responsibility and transparency;
 - 28.3 Establish structure, authority and responsibility;
 - 28.4 Demonstrate commitment to competence; and
 - 28.5 Enforce accountability.
29. Each of the five lines plays a distinct role within the municipality's wider governance framework. Everyone in a municipality has responsibility for internal control, but to help assure that essential duties regarding risk and control management are performed as intended, 5 LOA clarifies specific roles and responsibilities. When 5 LOA is properly structured, and it operates effectively, there should be:
- 29.1 Certainty about the achievement of objectives;
 - 29.2 Minimised gaps in risk and enhanced control coverage;

- 29.3 No unnecessary duplication of effort; and
- 29.4 A higher probability of risks and controls being effectively and efficiently managed.
- 30. Council will have increased opportunity to receive unbiased information about the certainty that the Municipality will achieve its objectives and management's response to the most significant risks.
- 31. A municipality's main goal is to achieve its objectives, which involves embracing opportunities, pursuing growth, taking risks, and managing those risks. Failure to take the appropriate risks, and failure to manage and control risks taken, can prevent a municipality from accomplishing its objectives. There is, and always will be, tension between activities to create value and activities to protect value. 5 LOA provides guidance, assigning roles and responsibilities to parties that will increase the success of effective management of risk and control.

First line of assurance

- 32. The first line of assurance vests with the process and risk owners whose activities create and/or manage the risks that can 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 processes.
- 33. 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.
- 34. In practice the first line of assurance needs to confirm that they have put management controls in place and that they have performed a control and risk self-assessment for the processes within their control.

Second line of assurance

- 35. The second line supports management with particular expertise, process excellence and ongoing monitoring processes. It includes various risk management and compliance functions to monitor whether controls and risk management processes implemented by the first line of assurance are designed appropriately and operating as intended.
- 36. Functions in the second line are typically responsible for ongoing monitoring of risk, control and compliance. 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:
 - 36.1 Assisting management in design and development of processes and controls to manage risks;
 - 36.2 Defining activities on how to monitor and measure success as compared to management expectations;
 - 36.3 Monitoring the adequacy and effectiveness of internal control activities;
 - 36.4 Escalating critical issues, emerging risks and outliers;
 - 36.5 Providing and updating the risk management framework;

- 36.6 Identifying shifts in the Municipality's implicit risk appetite and risk tolerance;
- 36.7 Measure and report when residual risk exceeds the risk appetite and risk tolerance levels;
- 36.8 Providing guidance and training related to risk management, control and compliance processes; and
- 36.9 Participating with Internal Audit, Management and external audit in the development of the combined assurance plan for the Municipality.

Third line of assurance

- 37. The third line provides assurance to the Accounting Officer and Council 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.
- 38. The third line has a reporting line to 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.
- 39. Internal Auditors are optimally positioned for providing reliable, independent and objective assurance to 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.

Fourth line of assurance

- 40. The fourth line of assurance are External auditors to provide assurance regarding the financial statements and the corresponding transactions, as well as assurance on compliance with key legislation, regulations, policies and procedures.
- 41. External assurance providers also provide additional assurance to satisfy legislative and regulatory expectations that serve to protect the interest of the public and satisfy requests by Management and Council (Council governing bodies) to complement internal sources.

Fifth line of assurance

- 42. The Audit Committee fulfils the fifth line of assurance, enabling Council to fulfil its responsibilities. Senior management and the Council collectively have responsibility for establishing a municipality's objectives, defining high-level strategies to achieve those objectives, and establishing governance structures to best manage risk. King IV outlines the key principles that Councils should endorse. Council should:
 - 42.1 Lead ethically and effectively and govern the ethics of a municipality in a way that supports an ethical culture;
 - 42.2 Ensure that the Municipality is and seen to be a responsible corporate citizen;

- 42.3 Appreciate that the Municipality's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process;
- 42.4 Ensure that reports issued by the Municipality enable stakeholders to make informed assessments of the Municipality's performance and its short, medium and long term prospects;
- 42.5 Serve as a focal point of and custodian of good governance in the Municipality and should comprise an appropriate balance of knowledge, skills and experience, diversity and independence to discharge its governance role and responsibilities objectively and effectively. It should ensure that the appointment of, and delegation to management contribute to role clarity and the effective exercise of authority and responsibilities;
- 42.6 Ensure that the evaluation of its own performance and that of its committees and the individual Councillors, and support continued improvement in its performance and effectiveness;
- 42.7 Govern risk, technology and information and compliance with applicable laws, regulations, policies, procedures and contractual obligations in such a way to support the Municipality in setting and achieving its strategic objectives; and
- 42.8 Ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the Municipality's external reports.

Audit Committee responsibilities for Combined Assurance

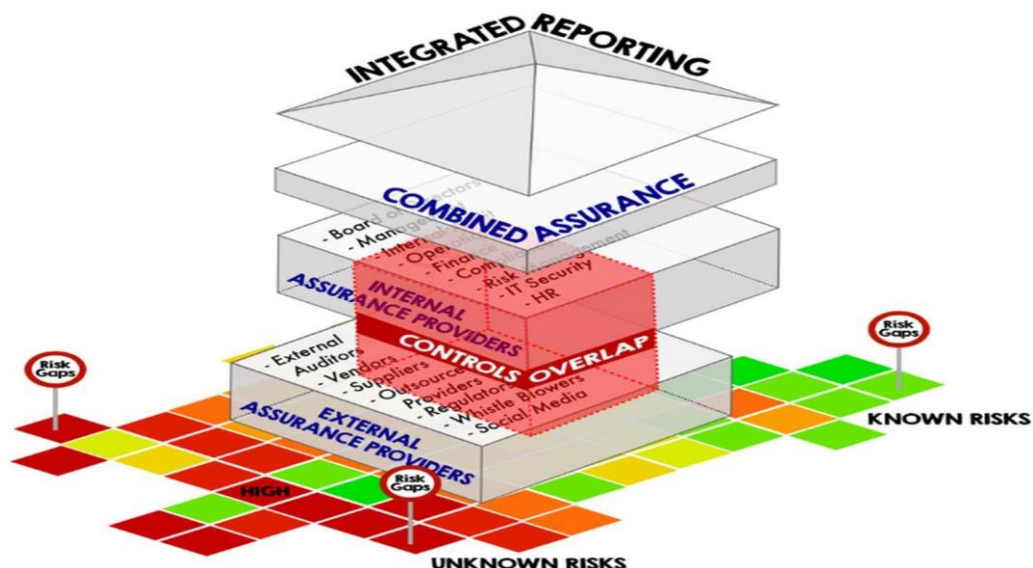
- 43. In compliance with Section 166(2) of the MFMA, Council has an Audit Committee which is an independent body advising the Council, the political office-bearers, the Accounting Officer and the management staff of the Municipality, on matters relating to:
 - 43.1 Governance, Risk management and Internal control;
 - 43.2 Accounting policies, Adequacy, reliability and accuracy of financial reporting and information and Annual financial statements;
 - 43.3 Performance management;
 - 43.4 Compliance with MFMA, DoRA and other applicable legislation;
 - 43.5 Issues raised by the Auditor-General and Internal Audit; and
 - 43.6 Monitoring and evaluation of the Internal Audit Unit.
- 44. The Audit Committee is an independent committee responsible for oversight of the municipality's governance, risk management and control, and should provide an independent and objective view of the Municipality's achievement of its objectives and its risk management effectiveness. Responsibilities should include reviewing and recommending disclosures on risk in the annual report, providing feedback on the adequacy and effectiveness of risk management, including recommendations for improvement, ensuring internal and external plans are aligned to the Municipality's risk profile, and satisfying itself that financial reporting risks, internal financial control and information technology risks are appropriately addressed.

45. The King IV report states that the Audit Committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities, and that it includes as recommended practice the principle that the Audit Committee should ensure that combined assurance is appropriate to address all the significant risks facing the Municipality, and furthermore, should monitor the relationship between the external assurance providers and the municipality.
46. It should be reiterated that the Audit Committee's responsibilities for combined assurance have now been expanded to include all significant risks and is not limited to financial and information technology risks only. With combined assurance the Audit Committee will be able to fulfil the oversight function much more effectively and efficiently. Combined assurance can be used to provide the Audit Committee with the comfort that significant risks, including strategic risks, and the actions to mitigate the risks, have been subjected to assurance procedures.
47. The Audit Committee should:
 - 47.1 Ensure that the responsibilities of the Audit Committee for combined assurance are appropriately reflected in the Audit Committee Charter;
 - 47.2 Review the combined assurance framework/plan and ensure that the framework/plan can be clearly linked to the risk analysis, and that all the high-risk areas identified in the risk analysis are covered in the combined assurance plan. This would include ensuring that when the risk profiles change, the combined assurance plan is updated;
 - 47.3 Ensure that risk analysis includes the strategic risks as well as the significant risks within the different assurance areas, including for example, but not limited to, forensics, legal, financial, environmental, occupational health and safety; and
 - 47.4 Ensure that the combined assurance plan links the risks to the activities/mitigating actions and the responsible assurance providers, with an indication of the frequency of the actions.
48. Where Internal Audit, as per standard 2050, or second line functions (such as Risk Management, Compliance Management, inter alia) have been identified in the combined assurance plan as responsible for co-coordinating the inputs received from the different assurance providers on the execution of the plan, the Audit Committee needs to review quarterly reports from them that reflect actual performance by the different assurance providers and compare this with the combined assurance plan. The Audit Committee should also review the corrective actions taken where identified risks are not being covered by assurance activities.
49. Where Internal Audit has been identified in the combined assurance plan as one of the assurance providers, the Audit Committee needs to ensure that the activities allocated to internal audit in terms of the combined assurance plan are included in the scope of coverage and in the internal audit plan.
50. Where External Audit has been identified in the combined assurance plan as one of the assurance providers, the Audit Committee needs to confirm with External Audit that the work performed by them will warrant such reliance.
51. The Audit Committee should consider the extent to which they were able to fulfil their combined assurance responsibilities and reflect that appropriately in the Audit Committee report.

Combined Assurance Reporting

52. The first four lines of assurance serve the same ultimate stakeholders, and they often deal with the same risk and control issues. Senior Management and Council should clearly communicate the expectation that information be shared and activities coordinated among the four lines where this supports the overall effectiveness of the effort and does not diminish any of the line's key functions.
53. While they have the same objective, each line has its own unique roles and responsibilities. They are separate lines but should not operate in silos. They should share information and coordinate efforts regarding governance, risk and control. In many situations there could be a shared perspective regarding risk and control. Careful coordination is essential to avoid unnecessary duplication of efforts while assuring that all significant risks are addressed appropriately.
54. The second line (risk management) provides expertise in risk, helps to determine the risk management implementation strategy, and assists in the implementation of related policies and procedures. The second line ensures that all risk owners (the first line) apply a common risk language and consistent set of risk management processes and tools, to enable the monitoring, review and reporting on risks and risk management performance across the municipality while consistently challenging management on risk related matters.
55. The term 'assurance' refers to the verification of risk mitigation and internal control. It embraces the tasks of internal audit, management reviews and specialised audits that test and validate the control environment:
- 55.1. Combined assurance feeds into integrated reporting as recommended by King IV, although integrated reporting is outside the scope of this document;

Diagram 3 Combined assurance/integrated reporting



56. The backbone of a combined assurance model is to ensure that all the lines of assurance are:
- 56.1 Aligned to the municipal strategic and operational objectives approved by the Council; and
- 56.2 Aligned to a commonly accepted view of the risks that will prevent the municipality achieving its objectives.

57. A municipality looking to apply this model effectively and efficiently is setting itself up for failure if it does not have a robust, mature risk management process. Conversely, a municipality that has a risk management process, but no combined assurance model, is missing a vital piece of this puzzle.
58. Combined assurance seeks to reduce duplications in assurance processes and prevent any key controls from being missed by assurance providers. This approach to assurance normally has a risk foundation. Risks are aligned to the approved strategic objectives. Risk registers are used to design the annual assurance plans. An assurance plan is one of the primary means by which the Accounting Officer receives confirmation that risk responses and internal controls are appropriately designed and implemented. A risk-based assurance plan follows the outputs of the risk identification, assessment and control evaluation processes.
59. It is commonly accepted that assurance should be designed on an integrated basis. This means that there is a coordinated plan to provide a spread of assurance providers for the key controls. The principle of integration lies in the arranging of specialist assurance providers based on a rational allocation of resources.
60. Assurance providers usually have an existing assurance role, for example internal auditors, insurance surveyors, safety auditors, environmental surveyors, quality auditors, stakeholder satisfaction surveys, credit auditors, etc.

Applicability

61. Combined assurance can only effectively be applied in risk mature municipalities. It requires a solid understanding of risk, the roles of the five lines of assurance, and correlation between the different assurance providers.
62. Internal Audit should also provide assurance on the effectiveness of the risk management process. Internal Audit should also ensure that they can rely on work performed by other assurance providers.
63. External auditors will provide assurance on financial and compliance risks, by auditing the reliability and integrity of the financial statements, and the compliance with relevant laws, regulations, policies, procedures and contractual obligations.

Implementing effective Combined Assurance

64. Identifying Role Players - As the first step, the Accounting Officer should appoint Internal Audit, as per standard 2050 or Risk Management as the combined assurance champion to coordinate the process and its continuity. Internal Audit and Risk Management are usually the best placed to take on the combined assurance champion role based on their understanding of the assurance concepts and a strong vested interest to making sure that the approach is effective. Other second line functions can take on the championing role, such as Compliance Management or Legal Services.
65. 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.
66. 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 reduce duplication.

67. 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.
68. The different lines of assurance are mapped to the identified risks and detail work performed to provide the expected assurance. Risk information should be regularly and centrally maintained. It might not be feasible to consider all identified risks in the Combined Assurance 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 Combined Assurance Model. This approach will simultaneously ensure that the assurance is worth the cost.
69. 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.
70. Adequate assurance coverage must be addressed by the Combined Assurance Champion in conjunction with the Accounting Officer. 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.

Requirements to qualify as an assurance provider

71. Assurance providers play a pivotal role in overall good governance and effective risk management. The following assurance providers forms the minimum baseline:
 - 71.1 Risk owners or process management;
 - 71.2 Risk management;
 - 71.3 Performance management;
 - 71.4 Compliance or inspections;
 - 71.5 Internal Audit and External Audit;
 - 71.6 Forensic Audit; and
 - 71.7 Engineering or Environmental evaluations.
72. The requirements to qualify as an assurance provider includes the following:

Independence and objectivity	Independent reporting lines, no recent direct involvement and/or work done in the area/aspects to provide assurance on.
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).
Skills and experience	The assurance provider should have the appropriate skills and experience to effectively conduct the assignment.

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

73. Any reliance on an assurance provider will be based on independent evaluation by internal audit. Independent evaluation will include an assessment of:
- 73.1 The independence and objectivity of the assurance provider;
 - 73.2 Confirmation that there is no conflict of interest;
 - 73.3 Qualifications and professional membership of the assurance provider;
 - 73.4 The skills and experience of the assurance provider; and
 - 73.5 An evaluation of the methodology applied in the process. It is important to ensure that the scope of the assurance provided aligns with the key objectives, strategic risks and key focus areas. Assurance will only be useful if it fits into the assurance map in a direct and measurable basis.
74. Internal Audit needs to include the auditing of the control risk self-assessment ("CRSA") process for design and implementation and its effective application by the risk owners. CRSA is not a tick-box exercise, but a process that needs to be well designed, documented and preferably be included in the Risk Management system. Without independent assurance on CRSA, no reliance can be placed on it. Without this reliance it will effectively mean that risk owners state that their risks are effectively controlled, and internal audit accept that statement on face value.
75. Internal Audit also need to audit the design and implementation of an effective risk management process ("RMP"). Without independent assurance on RMP, no reliance can be placed on it.
76. The same principle would apply should other assurance providers be added to the combined assurance matrix.

Combined assurance map and risk universe

77. In the municipal strategy, defined in terms of a mission, vision and/or purpose, Senior Management sets out (with Council oversight) what the Municipality aspires to achieve - explicitly establishing the Municipality's broad-based reason for being.
78. Management identified strategic objectives, formulated strategy, and established related operational implications, performance criteria, compliance requirements and reporting objectives for the Municipality.
79. The Municipality's mission and strategic objectives are generally stable, but its strategy and many related objectives are more dynamic and adjusted for changing internal and external conditions, and emerging risk scenarios. As they change and continue to do so, strategy and related objectives are realigned with strategic objectives.
80. Strategic objectives reflect management's choice as to how the Municipality will seek to create value for its stakeholders. In considering alternative ways to achieve its strategic objectives, management identifies and assesses risks associated with a range of strategy choices and consideration of their implications.

81. The risk universe which directs the scope of the combined assurance report, includes the following:
- 81.1 Critical systems - those process identified by Senior Management as having a significant impact on the successful delivery of strategic priorities or whose failure could result in significant damage to reputation, financial loss, or impact on human resources and/or customers;
 - 81.2 Due diligence activities - those that support the running of the Council and ensure compliance with laws, regulations, policies, procedures and contractual obligations;
 - 81.3 Key risks - as identified in the strategic risk register, operational risk registers or associated with major new business strategies or change;
 - 81.4 Key projects - supporting the successful delivery of priorities and activities; and
 - 81.5 Key partnerships - that play a key role in successful delivery of services.
82. Effective application of the combined assurance model is reliant on an accurate population of the risk universe. The Municipality must map the universe in the strategic plan based on the key performance areas. The key performance areas must also link to the strategic risk register. The mapped universe forms the foundation of the combined assurance report and the structuring of the risk and control assessments.
83. Effective risk management provides reasonable assurance that a municipality's reporting objectives are being achieved. Achieving reporting and compliance objectives is largely within the Municipality's control but there is a difference when it comes to strategic and operational objectives, because their achievement is not solely within the Municipality's control. It is exposed to external events - such as change in government, mother of nature conditions, exchange rate fluctuations and oil prices.
84. For strategic and operational objectives, risk management can provide reasonable assurance that management and, in its oversight role, Council are made aware, in a timely manner, of the extent to which the Municipality is moving toward achievement of these objectives.
85. If the Municipality's objectives are not aligned to the Municipality's risk appetite. Misalignment could result in not accepting enough risk to achieve the objectives, or conversely, putting the Municipality's survival at risk by accepting too much risk. Effective risk management does not dictate which objectives management chooses, but that management has a process that aligns strategic objectives with the Municipality's mission and that ensures the chosen strategic and related objectives are consistent with the municipality's risk appetite, and risk bearing capacity.

Culmination of the process

86. The aforementioned process can be documented and reflected on the attached template (Please refer to Annexure "A" in this regard). The template details the (5) five lines of assurance which is mapped to the risk profile of the organisation. The cross reference will then detail the assurance coverage. Judgement can be made on over or under assurance and adjustments may be made accordingly. The template can also be used for reporting purposes. An annual process must be developed to evaluate and report to the Audit Committee on the adequacy, effectiveness and efficiency of the development and implementation of the combined assurance framework.

Glossary of terms

Accounting Officer	In relation to a municipality, the Municipal Manager (as referred to in section 60 of the MFMA),
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 (where internal audit activities are sourced from external service providers, the Chief Audit Executive is the person responsible for overseeing the service contract and the overall quality of the services provided).
Chief Risk Officer	A senior official who is the head of the risk management unit.
Combined assurance	A process that seeks to optimise the scope of assurance to the Institution by harmonising the work of various providers of assurance through eliminating fragmentation and duplication of efforts.
CAP	Combined Assurance Plan.
Compliance risks	Compliance risks include the risk that laws, regulations, policies, procedures, and contractual obligations will be breached. This would typically include risks associated with legal and regulatory obligations.
Framework	The Local Government Risk Management Framework.
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 assurance	An integrated coordinated approach by two or more assurance providers, for the purpose of providing the most effective and complete independent assessment on risk management, control, and governance processes for their municipality.
Integrated risk management	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 Municipality, aggregating these results at the executive level, communicating them, and ensuring adequate monitoring and review.
Internal Audit	An independent, objective assurance and advisory 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.

Municipality(s)	A local municipality is governed by a municipal Council elected by voters resident in the area. There are three different systems by which the executive government of the Municipality may be structured. In the plenary system, executive powers are vested in the full Council, and the mayor is chairperson of the Council. 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.
Council	Council of a municipality as referred to in Section 18 of the Municipal Structures Act, as defined in Section 1 of the MFMA.
King III	King 3 report on governance in South Africa, 2009.
King IV report	King 4 report on corporate governance in South Africa, 2016, and specifically part 6.2: Supplement for municipalities.
Management	All officials of the Municipality except for the Chief Risk Officer and officials reporting to him/her.
MFMA	Municipal Finance Management Act (Act No. 56 of 2003), as amended.
Risk	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 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 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.
Fraud and Risk Management Committee (FARMCO)	A committee appointed by the Municipal Manager to govern (guide, monitor and review) the Municipality's system of risk management.
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.
Strategic risk	Strategic risks are those internal and external events and scenarios that can inhibit a municipality's ability to achieve its strategic objectives. This would typically include risks associated with governance, the business model, and the industry/economic environment.

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**Western Cape
Government**

Key Area/ Process (Audit Universe)	Ref	Management-based Assurance		Risk & Compliance-Based Assurance			Independent Assurance			Notes & Key Deliverables
		1 st Line of Assurance		2 nd Line of Assurance		3 rd Line of Assurance	4 th Line of Assurance		5 th Line of Assurance	
		First line of Defence: Manage		Second line of defence: Monitor		Third line of defence: Measure			Audit Committee	
Control Self-Assessment	Management review	Risk Management	Health and Safety	Compliance Officer	Internal Audit	External Audit	Other			
Strategic										
	1									
	2									
	3									
Operational										
Finance										
	4									
	5									
	6									
	7									
Human Resource										
	8									
	9									
	10									
IT and Systems										
	11									
	12									
	13									
Other Areas										
	14									
	15									
	16									

Extensive Assurance
Moderate Assurance
Limited Assurance
No Assurance