



Integrated risk assurance



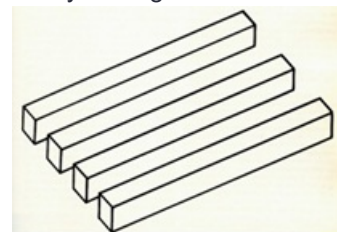
Integrated assurance is much like an orchestra, collectively achieving a symphonic masterpiece under the direction of a conductor that individual musicians are unable to create regardless of their proficiency.

This guidance looks at the concept of integrated assurance and why it can fall to the Chief Audit Executive (CAE) to facilitate it. It is timely to think about this long-standing issue and raising the profile of internal audit's value whilst the board is working through the impacts of the BEIS consultation white paper: Restoring Trust in Audit and Corporate Governance.

What is meant by integrated assurance?

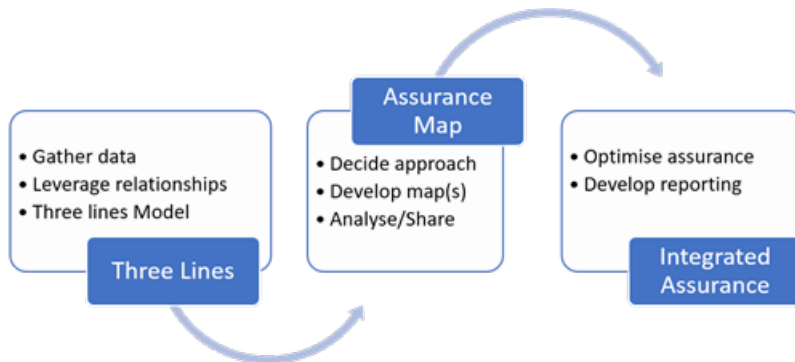
Assurance sits at the heart of internal audit. It is the *objective examination of evidence for the purpose of providing an independent assessment on governance, risk management and control processes for the organisation.*

The board, especially non-executives/trustees have limited visibility of the day to day running of an organisation and are reliant upon the assurances they receive to make decisions and steer strategy. With increasing risk maturity, focus on governance and general organisational evolution, the assurance role has become progressively more dispersed across entities. It can be particularly challenging when information conflicts, who should be believed? How many blocks are in the picture opposite - four or three? Depending on your perspective you could clearly argue the case for what you see!



Integrated assurance is the concept of creating a single enterprise view of assurance derived from all the various sources. Information provided to the board must be complete, relevant, accurate and most of all easily digestible. Imagine attending a concert where each accomplished musician played a piece of music of their own choice, no set score, no conductor, it would simply be a cacophony of noise. Is this not what a board is subjected to without integrated assurance?

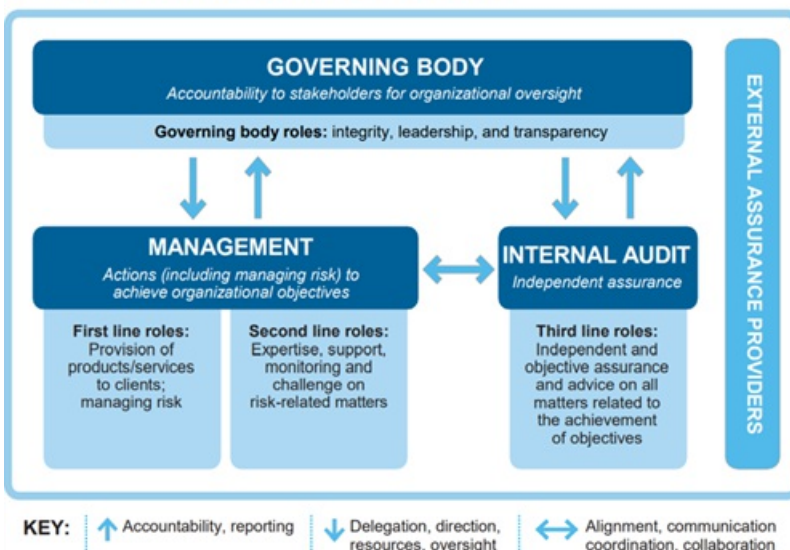
There are three phases to creating a robust assurance infrastructure (see below): each stage is a natural evolution of the previous one, maximising the use of the tools developed culminating in consolidated reporting of the combined picture provided through assurance mapping.



The musicians

Management and board assurance comes from a variety of sources regardless of the size and complexity of the organisation. Identifying these sources is essential for the CAE in order to be able to audit their competence, processes and potentially utilise their results. The model commonly used to do this is the Three Lines Model (updated 2020).

The IIA's Three Lines Model



The model helps organisations identify structures and processes that best assist the achievement of objectives and facilitate strong governance and risk management. The new model also promotes the

important of collaboration, communication, coordination and alignment between the three lines.

- The first (front) line is where risks are managed and controlled day-to-day. Assurance at the point of responsibility, not independent but of value as it comes from a point of knowledge.
- The second is made up of functions with responsibility for checking that the day-to-day controls are being done. Not independent, but often specialist and advisory.
- The third line is objective and independent of management; internal audit. Providing assurance over the whole organisation; risk management, controls and governance.

Widely accepted as best practice the model is nonpartisan and can be utilised to whatever level of granularity is appropriate for an organisation. Using the model assists in clearly defining accountability for internal controls and wider risk management activities.

The flexibility of the model also makes it possible for organisations to use its language but not **embrace it**, to prevent it becoming little more than lip-service, assurance providers need to break down siloes to build a community.

1. Does your organisation use the Three Lines Model?
2. Is it more than just good rhetoric?
3. Do you know the head of all your 2nd line teams?
4. How well does the 2nd line collaborate in your organisation?
5. How well do you comply with IPPF standard 2050?

The composer

There are few roles within an organisation where there is the knowledge, competence and commitment to develop an integrated assurance infrastructure; CAEs and their risk counterpart if the organisation has one.

The unique relationship that CAEs have with the audit committee and breadth of remit places them as the ideal composer of the *concerto assurance*. An assurance map requires creation, it will not happen symbiotically. Even organisations with exemplary governance practices are not required to have one yet it is one of the most practical ways of reducing complexity for those with oversight accountabilities.

An **assurance map** is a structured way of identifying and mapping the main sources and types of assurance in an organisation to efficiently and effectively utilise specialist resource. Even at a high level, this example demonstrates the ease at which management and the board can gain assurance, gaps are also readily identified.

Example of Key risk Areas	Assurance Coverage Mapping					
	1 st Line of Defence			2 nd Line defence		3 rd line of defence
	Management	Finance	Legal	Risk	Compliance	Audit
Strategic Risk						
Customer needs	●	●	●	●	●	●
Political & Regulatory	●	●	●	●	●	●
Operational Risk						
Financial Control	●	●	●	●	●	●
Legal & Compliance	●	●	●	●	●	●
Informational Technology	●	●	●	●	●	●
Health & Safety	●	●	●	●	●	●

It is simply a way of exploiting the **Three Lines Model**, maximising each lines value and being efficient with

resource. Regardless of the size of organisation, it can be achieved with any available budget, with or without software, slowly over time or at speed.

1. What relationship do you have with the 4th line?
2. Does your organisation have defined 2nd line functions?
3. Who could help you advocate for this approach?
4. How risk mature is your organisation?

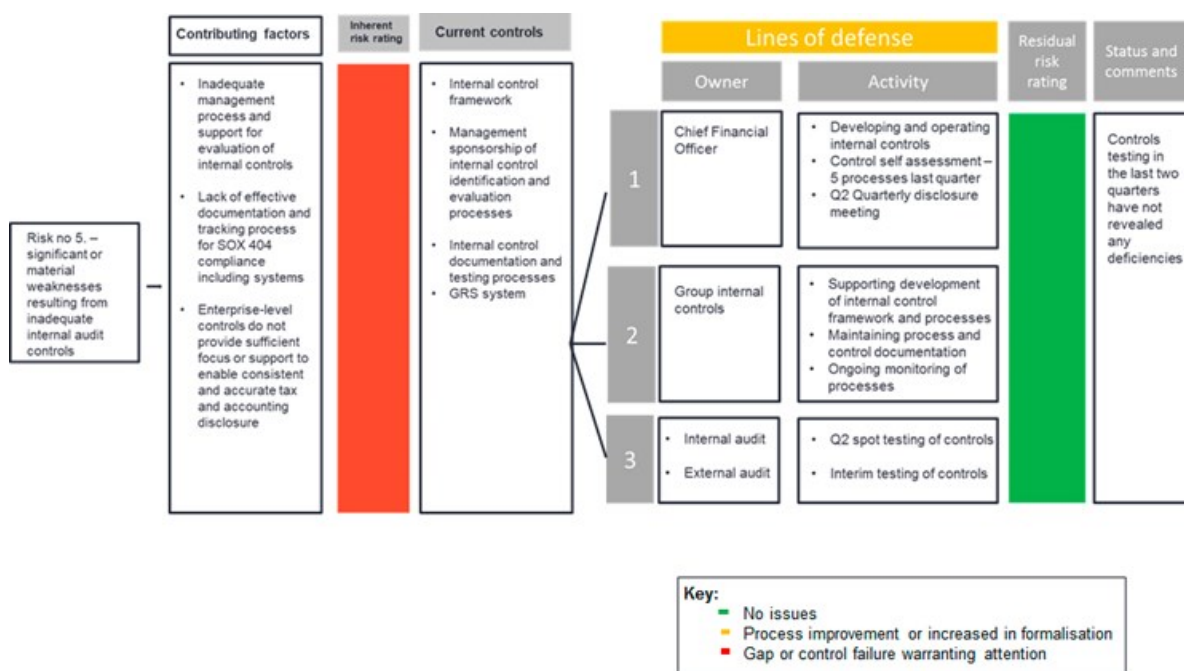
The conductor

In a world of information overload, assurance provided to management and the board vies for precious time on reading lists or crowded meeting agendas. It is therefore more important than ever to ensure that assurance is harmonised, integrated, combined, coordinated – whichever language works for you.

An orchestra, even with the score in front of them do not play without a conductor, directing the rise and fall, launching soloists and rousing whole sections. The same is true of assurance reporting. Left to interpret the score alone, assurance providers will define their own priorities and materiality based on their perspective of the organisation. Each will have their own version of the sky falling in, be that a new directive on the use of ladders by health and safety, lack of attendance at risk workshops by the risk team or a manager going rogue on a procurement contract. Important yes, but material for the board? This is the reality of silo-based reporting.

As lead conductor, CAEs can ensure that everyone plays to the same tempo, the materiality of the organisation, the risk appetite defined by the board. Using a combination of the Three Lines Model and an assurance map provides a tangible platform to break away from silo reporting. Enabling a powerful message to be delivered in a short report.

CAEs and heads of risk functions with their holistic view of the organisation, risk-based approach and relationship with all assurance stakeholders are the only people likely to have the skills and aspiration for making **integrated assurance** a reality. This concept takes assurance mapping to the next level by building an assurance community that collaboratively reports its activities as shown in the example below.



1. Is assurance provided to the board in silo reports?
2. How does the 2nd line define what's important to escalate?
3. Does your board hear music or discord at the moment?
4. Have you ever discussed this with the audit committee chair?

Closing thoughts

Pandemic pressures coupled with the BEIS consultation Restoring Trust in Audit and Corporate Governance are likely to be increasing pressure on CAEs to be the eyes and ears of the audit committee across the vast remit of governance, risk and control. Without a sizable team it is impossible for most internal audit functions to provide the depth of assurance coverage that their organisation requires. Creating an integrated assurance framework informed by an influential assurance infrastructure offers the best possible opportunity for robust and timely insight being provided to the board and oversight bodies. CAEs understand how important it is to make reports easy for the audience, surely it is better for internal audit to also make the various perspectives on assurance audible before people stop listening.

"The whole is greater than the sum of its parts"

- Aristotle