CIPFA\

Developing an effective assurance framework in a local authority

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Contents

Who is the briefing for?

This briefing is aimed at everyone with an interest in assurance in a local authority, those who are the recipients of assurance, providers of assurance and those overseeing assurance arrangements, including:

- elected representatives – particularly those in leadership roles and on the audit committee
- senior officers and managers
- internal auditors
- risk managers.

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Introduction

CIPFA has long provided standards and guidance on good practice in governance and public financial management for local authorities, including the role of the audit committee. CIPFA also sets internal audit standards for the local government sector in the UK. We often talk about the value of assurance, the importance of managing risk and the importance of establishing robust internal controls. This briefing complements our work and is relevant for all those in leadership and governance roles in a local authority.

In recent years, internal controls and assurance arrangements in local government have been under significant strain. In some authorities, pressures on resources have led to reductions in controls and in functions that can contribute assurance, such as internal audit and risk management. At the same time, authorities have been exploring a range of initiatives such as collaborations and trading companies or taking on significant commercial risks to maximise income and achieve savings. Sometimes the governance oversight has not kept pace with these developments and decision makers, scrutiny committees and audit committees have not obtained the assurance that they should have. While the financial audit of authorities has continued, the significant delays affecting local audit in England are well documented.

Recent initiatives by the Department for Levelling Up Housing and Communities (DLUHC) to update statutory guidance on best value and by the Local Government Association (LGA) to consider the improvement and assurance framework for the sector have raised the profile of assurance. This briefing will support those initiatives, helping authorities to review and improve their existing assurance arrangements, obtain a better understanding of assurance and thereby improve the sector's external accountability.

Key considerations for political leaders

Councillors carry responsibilities and legal duties for the governance of the authority, fulfilling best value and strategic decision making. Discharging those responsibilities effectively can only be done if they have confidence in the information they receive and the authority's systems of governance, risk management and internal control. This confidence comes from assurance. Knowing that your authority has the appropriate arrangements to obtain that assurance is at the heart of this briefing.

While the detailed arrangements might be operational concerns, councillors will want to know that a framework of assurances is in place and operating effectively. Members of the audit committee can play an important role in testing the adequacy of assurance arrangements and supporting improvement.

Public reports, including the annual governance statement (AGS), are important ways that the authority is held to account. When approving statements, councillors need confidence that they are factually correct, complete, and evidence based. In short, they need adequate assurance.

This briefing explains more about assurance and how authorities might organise and plan their assurance arrangements. Put together, this forms the assurance framework.

The purpose of an assurance framework

An assurance framework supports the authority's leadership team[1] and all those in governance roles, enabling them to make informed decisions, agree priorities and take remedial action where required. CIPFA defines an assurance framework in the following way:

The means by which leaders, managers and decision makers can have confidence that the governance arrangements that they have approved are being implemented, operating as intended, and remain fit for purpose.

Assurance is a statement intended to give confidence about conditions compared to criteria.[2]

Assurance helps ensure that the authority's governance arrangements continue to support their objectives. It can strengthen accountability and transparency within the authority and provides robust information for public accountability – for example, the annual review underpinning the AGS.

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[1] CIPFA's definition of the leadership team: executive committees, elected mayors, portfolio holders with delegated powers and other key committees of the authority and senior officers.
[2] Draft Global Internal Audit Standards (Institute of Internal Auditors, 2023).

Assurance within a local authority

Local authorities are complex organisations with a huge range of responsibilities. Internal control arrangements have developed over time at the corporate level (for example, financial regulations or IT security requirements) but also within departments and services. All controls should be proportionate and support the achievement of corporate or service objectives.

Having robust, fit for purpose internal controls is a key part of an authority's governance arrangements and should complement other aspects of governance, as set out in the principles of good governance.
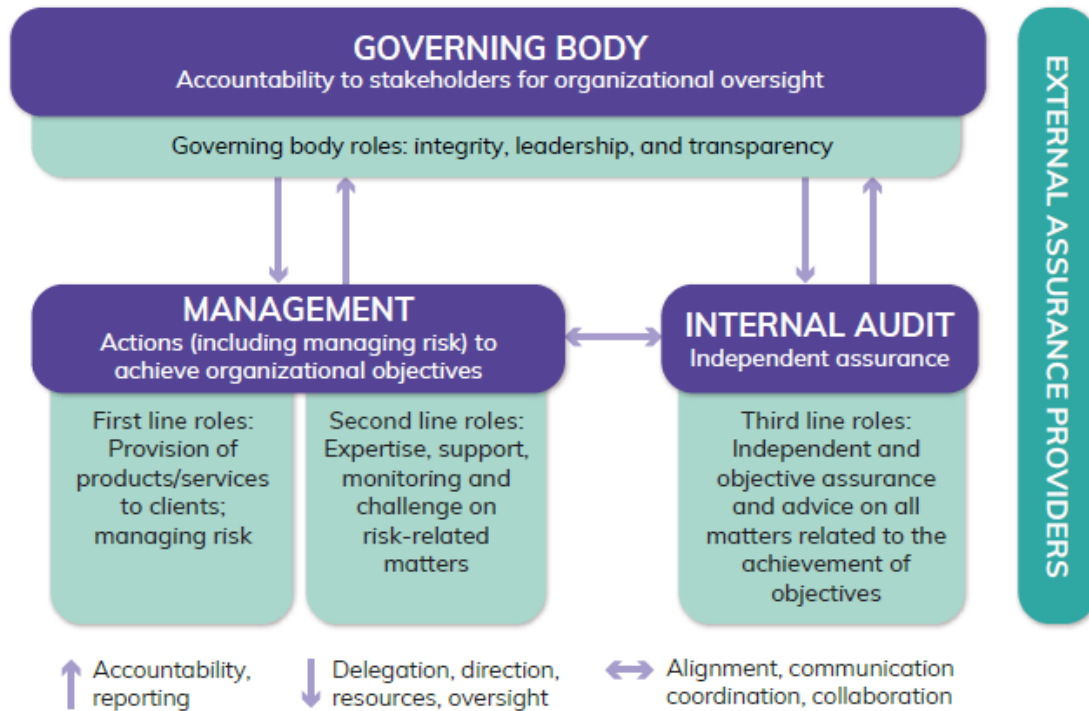
Establishing an effective assurance framework is part of good governance, but it also enables accountability on governance effectiveness to stakeholders, through the AGS (Delivering Good Governance in Local Government (CIPFA/Solace, 2016)).

Often, assurance is associated with the work of internal and external audit. They do provide assurance, and because their assurance is independent of the service or function, it is of particular value to the leadership team. They are not the only sources of assurance, however, and an assurance framework will create a better understanding of how assurance is provided. Many authorities will use the Three Lines Model developed by the Institute of Internal Auditors (IIA) to group or identify the different sources of assurance.

Figure 1: Establishing an effective assurance framework

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Figure 2: The Three Lines Model

An earlier version of the model described the three lines as lines of defence, and this terminology is still used in some authorities.

Authorities will have arrangements for management reporting and oversight, so it is best to consider management assurance fitting alongside those arrangements rather than a separate function. Managers responsible for service delivery and performance are also responsible for providing assurance.

Assurance, performance data and other information

Assurance is different to other forms of management reporting. For example:

- Management performance reporting could include management reporting on waiting times for service users.
- Management reporting on the accuracy, frequency and robustness of the system of monitoring and reporting on waiting times would be assurance.

Receiving assurance in support of management information helps decision makers to know the level of confidence they can place on it.

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Authorities will have responsible managers who can provide assurance over core functions. Corporate services such as finance, human resources, legal, information governance and security, procurement, health, safety and wellbeing, asset management and quality management, may each provide assurance on how well their standards, policies and controls are operating across the organisation. Service departments will also have specific service standards, which their controls are designed to safeguard.

The assurance framework – roles and responsibilities

Overall responsibility for the assurance framework lies with the authority's leadership team. Others have key roles too.

The leadership team

It is the responsibility of the leadership team to put in place and to own an effective assurance framework. This is because the leadership team is responsible for establishing robust governance arrangements for the organisation on behalf of those charged with governance. It monitors assurances on a regular basis, and it is essential that it takes responsibility for and has confidence in the assurance provided.

The leadership team also understands the importance of the authority's accountability arrangements: a range of stakeholders and regulators as well as the local community. To enable effective accountability and to build and sustain confidence and trust in the authority, the authority's published statements such as the AGS should be supported by adequate assurances. CIPFA's Financial Management Code (2019) establishes assurance as one of its key principles that should be owned by the leadership team.

Management

Management is an important component of the assurance framework, providing a main source of assurance. Managers will establish assurance mechanisms over the management of risks and controls in their specific areas of responsibility. They will monitor those mechanisms on a regular basis. The assurance framework will bring together the different assurance sources so that the leadership team can ensure they are robust, sufficient, complete and visible. Management activities such as supervision, reporting and mechanisms for remedial action or escalation of issues contribute to the assurance of the leadership team.

Some managers will not be familiar with the term 'assurance' and will not identify their activities as contributing to the authority's assurance framework. It is important to explain assurance and promote understanding across the organisation. Assurance should not always be regarded as a separate activity. It can be an embedded management tool reflected in the authority's delegations and reporting arrangements.

Internal audit and external assurance providers

The internal audit function is integral not only to delivering independent assurance but in collecting information and assessing the robustness of other assurance arrangements. Internal audit can use the assurance framework to understand the assurance in place in the organisation, place reliance on it, test it and focus their own work.

Their work will assist the leadership team and audit committee in understanding the various assurances available to the authority. Internal auditors are therefore well placed to make recommendations on the development and content of assurance frameworks.

The head of internal audit's annual opinion on the overall adequacy and effectiveness of the authority's governance, risk management and control is one of the main sources of objective assurance that the leadership team has for the annual governance statement. This internal opinion is unique within the wider assurance framework because it is independent, objective and prepared in accordance with professional standards.

External audit, external reviews and regulatory inspections also provide independent assurance. The scope and frequency of such assurance will be directed by stakeholders, professional standards, regulatory and legal requirements. External auditors can use the assurance framework as a reference when discussing improvements to governance, including risk management, internal control and assurance with the authority.

The audit committee

It is essential that the audit committee understands the full range of assurance available to the authority. This should therefore be reflected in the committee's terms of reference and facilitated by the assurance framework. On behalf of full council (the body charged with governance), the audit committee is responsible for scrutinising the authority's assurance arrangements to ensure that they are fit for purpose and are working effectively.

The assurance framework will be helpful to the audit committee in undertaking the following roles:

- Considering how assurances operate and interact.
- Identifying if the sources of assurances are sufficient and timely, or if the use of assurance is inefficient.
- Identifying any gaps and alternatives to ensure wide and reliable assurances.

The role of the audit committee will also include reviewing the assurance framework to assess whether the processes established are appropriate and proportionate to the authority's needs. The CIPFA position statement on audit committees in local authorities and police and the supporting CIPFA guidance publication Audit Committees: Practical Guidance for Local Authorities and Police (2022) provide additional support to audit committees in this role.
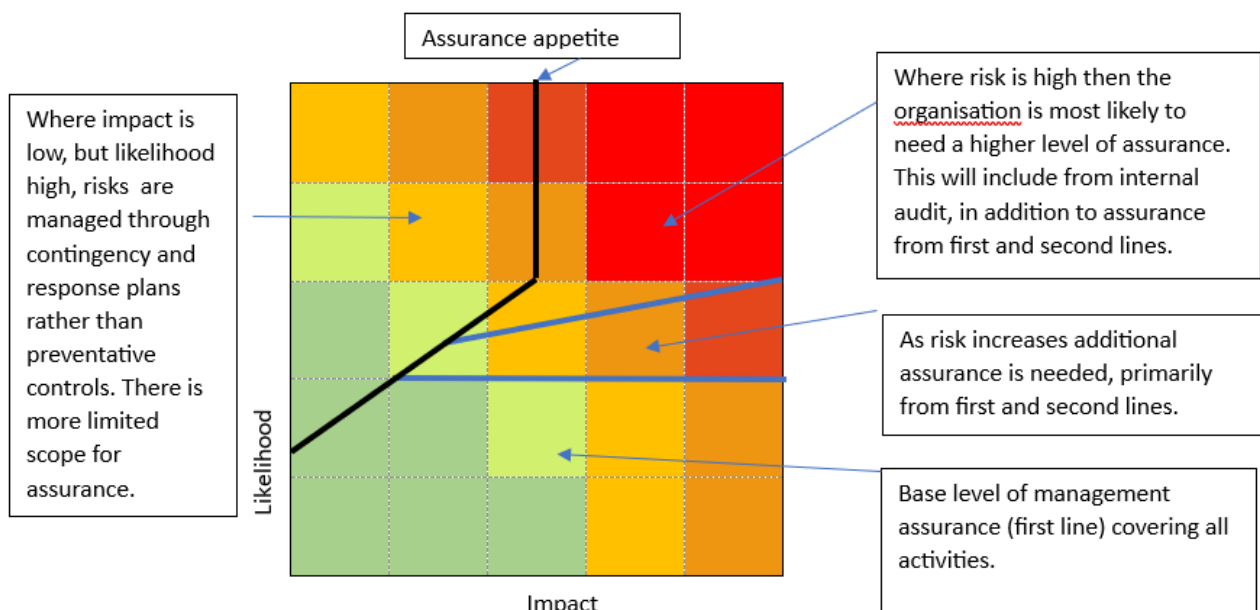
Assurance appetite

Establishing an assurance framework and providing clarity over assurance provision promotes and requires improved discussions and decisions regarding the authority's assurance appetite. For example, areas where there is greater risk and where control failure could have a significant impact should be identified by the authority as in need of greater assurance. These include IT security, financial management and strategic areas that underpin operations. Other examples include safety and safeguarding. Areas such as these typically have a low risk appetite but a high assurance appetite. The relationship between risk appetite and assurance appetite is therefore inverse, shown in simple terms in the diagram below.

The type and level of assurance provided needs to be appropriate and proportionate to the risks facing the authority. The leadership team will therefore need a good understanding of its risk and the assurances it requires.

Having appropriate and sufficient assurance arrangements will provide the leadership team with confidence that they have appropriate control arrangements to manage the major strategic risks facing the authority. They will also provide confidence that scarce resources are being used in a way that is proportionate and focused.

The relationship between risk, assurance appetite and the source of assurance is illustrated in the diagram below. In practice, planning assurance should be dynamic in response to risk and the level of confidence assurance is providing.

Figure 3: An organisation's appetite for assurance in comparison to risk and application of the three lines

Overall, the leadership team will require a mix of sources of assurance and will need to determine an appropriate balance, bearing in mind the level of risk. For example, line managers may provide adequate assurance, using existing mechanisms for some areas. Managers can give regular detailed updates or assurance, and they will have a high degree of familiarity with their area. Where additional assurance is needed, or where authorities are particularly risk averse and need confidence that arrangements are robust, additional or independent assurance is required. Sources such as internal audit can give significant confidence to the leadership team by providing an independent opinion.

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It is neither possible, nor desirable to have multiple layers of assurance covering all controls and functions. The resources needed would be unsustainable. Equally, reducing assurance can leave the authority dangerously exposed, with gaps in its knowledge or false confidence in its management of risk and the adequacy of control.

The concept of layers of assurance is illustrated in the diagram above, showing the greatest use of third line sources of assurance, where the assurance appetite is high.

Developing an assurance framework

The assurance framework should set out the source of assurances available to the leadership team and reflect the needs of the authority. Collaborative or arm's length arrangements such as trading companies also need to be incorporated, and multiple arrangements increase the complexity of the framework.

Some approaches take the authority's risks or objectives as the starting point, while other approaches are based around broad domains covering corporate arrangements or the organisational structure, reflecting how the authority operates in practice. The latter approach may help to embed the assurance framework within existing management and accountability structures of the authority. A further approach would be for assurance coverage within the framework to be grouped according to the seven good governance principles included in the CIPFA publication Developing Good Governance in Local Government, Framework (2016).

To aid leadership team understanding, whichever approach is taken, the process for developing and maintaining an assurance framework should have some common features. It should:

- have a clear structure
- identify the main types and sources of assurance
- set out how assurance providers should work together
- assess the effectiveness of the assurances available and whether the authority's assurance appetite reflects its risks
- identify gaps and unnecessary duplications in the assurances available and plans to rectify them
- facilitate regular review so that the framework remains fit for purpose.

The resources developed by the LGA can assist in identifying the different bodies involved and the scope of the framework.

By establishing an assurance framework with clear responsibilities for providing assurance as part of management roles and accountabilities, the leadership team will have a better understanding of how it gets its assurance and whether it is from the first, second or third line.

Challenging questions for the leadership team

The following questions will help leadership team to challenge whether they have the optimum assurance framework in place.

1	Do we receive sufficient assurance, taking account of the importance of our risks and controls?

2	Is the assurance mix right? • Is there too much reliance on first-line (management) assurance with little independent assurance from internal audit? • Do we have the right balance across the organisation? • Is internal audit expected to make up for gaps in the overall assurance framework?
3	Does the assurance framework mean managers have a better understanding of assurance and how their assurances support the leadership team?
4	Are the authority's accountability arrangements, including the annual governance statement, adequately supported by assurance?
5	Do the leadership team, managers, internal audit and the audit committee understand their role and responsibilities regarding assurance?

Principles for developing an assurance framework

This section is intended to assist authorities by setting out six principles to underpin their assurance framework's development and review. The principles complement regulatory and legal requirements, including standards of good governance, risk management and accountability reporting.

1. **Establish a clear purpose for the assurance framework.**

   - The assurance framework:

     - can enable confidence that the authority's governance and control arrangements work in practice and are aligned to the authority's purpose

     - can ensure that the information on which decisions are made is robust

     - helps establish clarity and ownership of governance, risk management, internal control and assurance arrangements.

2. **Set out roles and responsibilities for assurance within the assurance framework and for the framework itself.**

   - Responsibility for establishing assurance from the first and second lines lies with the leadership team.

   - There is recognition that internal management assurance differs from independent assurance provided by internal audit.

   - There is planned and effective interaction between internal audit and the first and second lines, as set out in the Three Lines Model (IIA Global).

   - The leadership team owns the assurance framework, supported by the audit committee.

3. **Integrate the assurance framework into the authority's accountability arrangements. This should ensure that:**

   - assurance reporting contributes to and supports external accountability reporting by the authority

   - it provides evidence-based support for the annual governance statement

   - assurances provided by the first and second line will inform the work of internal audit and external audit

   - assurance reinforces and empowers existing lines of internal accountability:

     - it should be an integral part of management reporting

- o it supports oversight by the audit committee of risk management and internal control arrangements

- o it supports oversight by other boards or committees within the authority such as those overseeing collaborative or arm's length arrangements.

4. **Define the sources of assurance within the framework using the Three Lines Model.**

- Management assurance – embedded in line management arrangements.

- Oversight and compliance assurance – review and monitoring functions.

- Independent assurance (internal audit).

- Beyond the three lines within the authority, external assurance providers such as external audit and inspectorates or regulators are a major source of assurance for the leadership team and should be identified.

5. **Establish the components appropriate to the authority's functions. Taken together, the leadership team should have a comprehensive framework of assurance. The components are likely to include:**

- central responsibilities common to all authorities (such as financial management, legal compliance, or information security)

- operational management responsibilities according to the tier of authority – for example, social care or housing

- shared, collaborative or third-party arrangements that cross organisational boundaries – for example, shared services and trading companies.

6. **To maximise the value of the framework, taken as a whole, the assurances should include the following characteristics:**

- Clarity of responsibility to provide the assurance.

- Timeliness of the assurance.

- Accuracy/reliability of the assurance.

- Assurance should be evidence based.

- Focus – it should tell senior management what they need to know.

- Assurance should be relevant.

- It should be based upon objective criteria, eg use of an externally set framework or standard where possible.

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Applying the briefing in practice

The next steps for the leadership team include the following:

- Explain or reinforce the roles of assurance and the assurance framework to promote understanding across the organisation.

- Where an organisation already has an assurance framework, this briefing and the principles can be used to review and assess it.

- Where an organisation has not formally identified the full scope of assurance within a framework, this briefing will help to target that activity.

For internal auditors, a review of any existing assurance framework using the briefing will help them fulfil their responsibilities for coordination of assurance (Standard 2050) and identify areas where improvements could be made.

For external auditors, the briefing will provide a resource for their audit clients and a basis for discussions on assurance arrangements.

Further development work

CIPFA will publish a more detailed guide containing examples from public sector organisations in the UK in 2024. This is intended to support the planning and implementation of an assurance framework.