

Assurance Mapping – what is it, and why does it matter to Internal Audit?

~ By James C Paterson

I am delighted to be coming to Finland again to deliver two workshops between 25-27 September 2017 - one on the new IIA IPPF and audit best practices (2 days) and one on assurance mapping (1 day).

The Assurance Mapping workshop builds on an Assurance Mapping course that I have been running for the IIA in Sweden/Norway/Switzerland and the UK.

The following article sets out some key points concerning Assurance and Assurance Mapping, which will explore in more detail at the workshops.

“Assurance” and “Reasonable assurance” in an Audit context

The Oxford English dictionary defines assurance as: i) A pledge, or guarantee; and ii) a positive declaration intended to give confidence. The key idea is that *providing positive assurance should accurately reflect the reality that things are working.*

However, providing a guarantee that something is working has its challenges ranging from the fact that a risk or process may change over time, but also because of the inevitable constraints of any audit assignment in terms of the time and effort taken. For this reason, the idea of “*reasonable assurance*” has been developed and this has been defined in the context external auditing. ISA 700 states: “reasonable assurance .. involves concluding whether sufficient appropriate audit evidence has been obtained *to reduce to an acceptably low level the risks of material misstatement of the financial statements* and evaluating the effects of uncorrected misstatements identified” (emphasis added). One of the key things this translates into, in an external audit context, is the agreement of specific materiality levels to which the external audit opinion will be based (e.g. issues above 1M Euros).

Whilst the ISA definition of reasonable assurance can be helpful to internal audit when considering how to approach a financial controls assignment, readers will recognize that there are many other types of risk and process, where the simple use of a financial materiality level will not be straightforward or appropriate (e.g. in an audit of a compliance matter or a project).

Thus a key challenge for internal audit functions is to consider what “reasonable assurance” means in the context internal audits, and we will explore good practices in this regard. An important benefit of defining “reasonable assurance” in an internal audit context will be to *reduce the chances of management misunderstanding what audit has done*, resulting in the criticism (if something goes wrong after an internal audit has taken place in the past) “I thought you did an audit last year – why didn’t you find the problem then”?!

“Reasonable assurance” beyond audit and the audit plan

Of course internal audit functions only have a limited amount of resource, so the question arises which areas should be audited by internal audit? The response is that internal audit should create a risk based audit plan. However, if we pursue the argument that internal audit should audit important risks, this will often include strategic initiatives (product launches, major change projects) and other important operational risk areas (product quality and compliance). However, many internal audit functions do not look at strategic areas that much, (based on my work over the past 7 years I estimate most audit plans only devote 10-20% of their time to cover key/strategic risks). The reasons for this relatively small coverage of key risks are numerous, but one important factor relevant to this discussion concerns assurance: “Why should internal audit look at this project, when it is already being managed by a project team and reviewed by senior management on a regular basis”; or “Why should the internal audit function look at product quality risks, when there is already a product quality function”? In these examples management push back is essentially along the lines of: “There may be key risks that internal audit *could* look at but that doesn’t mean that internal audit *should* look at them since we already have enough assurance from other sources.”

In practice many heads of audit may feel that a function such as product quality, or health and safety can be trusted to provide a degree of assurance, and therefore internal audit need not include this area in the audit plan (which is often the case). Likewise the head of audit might think that assurances from management in relation to a project might be overly optimistic, meaning some audit work should be done. The risk is that the internal audit assessment of the quality of the assurances from product quality or health and safety or a project manager, might be just as subjective as those of management! After all, it is possible that a second line function may be providing relatively limited assurance, whilst a project which of managed by a very strong project manager might be providing a highly accurate picture of the issues relating to the project and how these should be addressed.

In the assurance mapping workshop we will develop the notion of “reasonable assurance” beyond an external audit and internal audit context to look at how we might define this for both “second line” functions (such as health and safety or product quality) and also for “first line” management. As just mentioned, the simplistic argument that management assurances should automatically be regarded of less high quality than the assurances from second line, and the third line, does not always hold true; in other words *independence from line management is not the only criteria by which to judge the robustness of assurance*.

Assurance mapping definition and link to reasonable assurance

Now let us turn to Assurance Mapping. An assurance map is defined in IIA practice guide 2050-2, which states:

“An assurance mapping exercise involves mapping assurance coverage against the *key risks* in an organization...The aim is to ensure there is a *comprehensive risk and assurance process* with no duplicated effort or potential gaps... to give stakeholders comfort.”

The practice advisory note goes on to discuss the importance of assurance roles and accountabilities as well as the statement that “*assurance from line management is fundamental* and should be complemented by assurance from internal audit and others.”

We will explore how to start an Assurance Mapping process, who should lead it, and also the ways an Assurance map can be presented (there are many), but it should be clear that having a good understanding of “reasonable assurance” will make it much easier to judge whether there are actually gaps or overlaps between what assurance is being provided by different parts of the organization and what is needed.

In this context it is important to note two common pitfalls:

- An assurance map should not simply cover the activities of internal audit and second line functions, *and ignore the assurances provided by line management* (which is contrary to the practice advisory note, but is also problematic for other reasons) and
- *Be wary of assuming that because someone has a job title (e.g. head of health and safety etc.), or are described as a “Policy owner” that they will be providing comprehensive assurance over that risk!* I have spoken to several heads of second line functions, such as health and safety, who have stressed that they should not be head accountable for health and safety risks; since that is the job of management!

Benefits from assurance mapping

Developing an assurance map usually has three initial benefits:

- 1) Clarifying expectations around the amount of assurance needed for different areas. This links closely to understanding the risk appetite for key stakeholders and can reveal important differences of opinion between them (e.g. management believe the level of assurance is sufficient on a particular risk, but the audit committee does not).
- 2) A clearer understanding of the roles and responsibilities of management, second line functions (such as finance and compliance functions) as well as the level of assurances needed from internal audit. This can sometimes result in the need for communication and training for staff and managers about their responsibilities for risks and the operation of controls and compliance monitoring (e.g. should this finance check that we see in some areas not be mandatory for all finance teams across all of the organization?).
- 3) Greater co-ordination between second line functions, internal audit, external audit and even external consultants in relation to who should do what when, which can be invaluable when developing the internal audit plan. This often has the benefit of less “audit fatigue” being felt by management, and also help with resourcing constraints. Thus an audit plan should not simply be risk based but be based on risks and assurances (which is one of the reasons my company is named risk and assurance!).

Other important benefits are also possible and include:

- Gaining insights into weakness in the risk management process, where assurance principles can be used to assess and then strengthen what is done;
- Improving the sharing of knowledge, intelligence and best practices between second line functions (such as risk, finance and compliance), internal audit, external audit and any external consultant work
- Reporting of risks and assurances that is integrated and harmonized, creating more streamlined reporting for senior management and the audit committee; for example, a compliance assurance dashboard (which is what we developed at AstraZeneca when I was CAE).
- Developing a lean audit approach that uses insights about the strength of assurances during audit assignments to better manage the focus and extent of audit testing during audit assignments, saving time/resource.

However, it is easy to turn an assurance mapping exercise into a lengthy, complex and over ambitious process. *Keeping an assurance map practical, value adding and not overly complex and built into day-to-day activities are some of the key things we will explore during the workshop.*

I hope this article provides a useful overview of assurance mapping principles and the benefits and challenges in developing an assurance map, and I look forward to discussing these matters further in September

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James was formerly a member of the supervisory committee of the Institute of Internal Auditors for the UK & Ireland, and before that was Chief Internal Auditor for AstraZeneca PLC. He has a Masters degree in management and is CIA qualified. James is the author of the book "Lean Auditing" published by J Wiley & sons in 2015 and has spoken at the IIA International Conference on a range of topics in 2012, 2014 and 2016.