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# **PST Board Assurance Framework**



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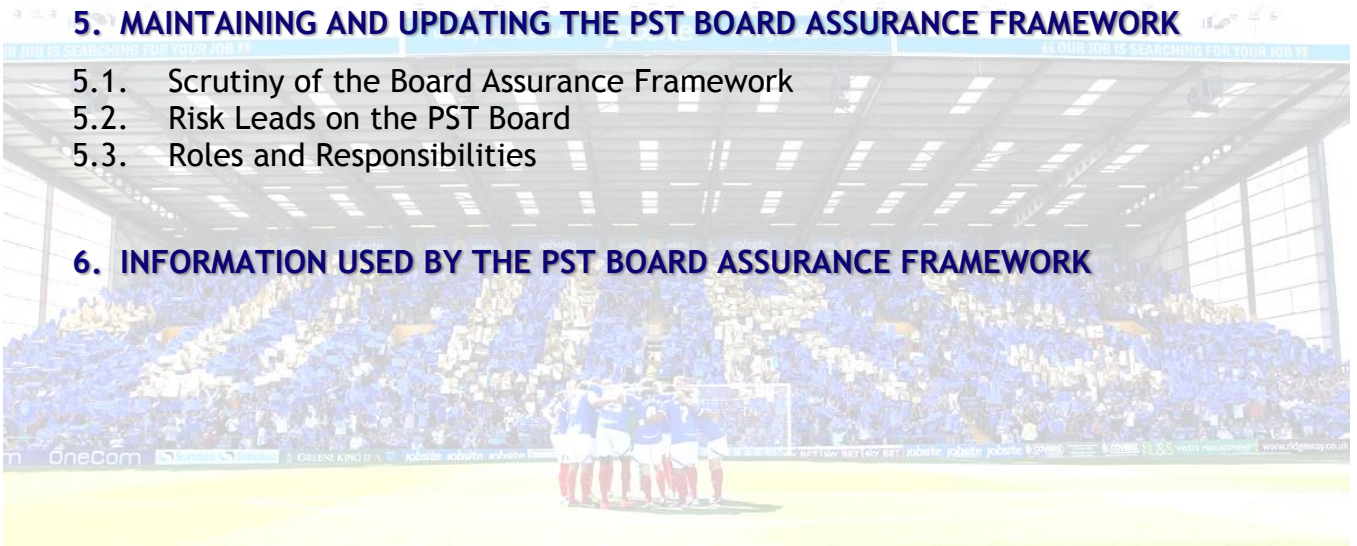
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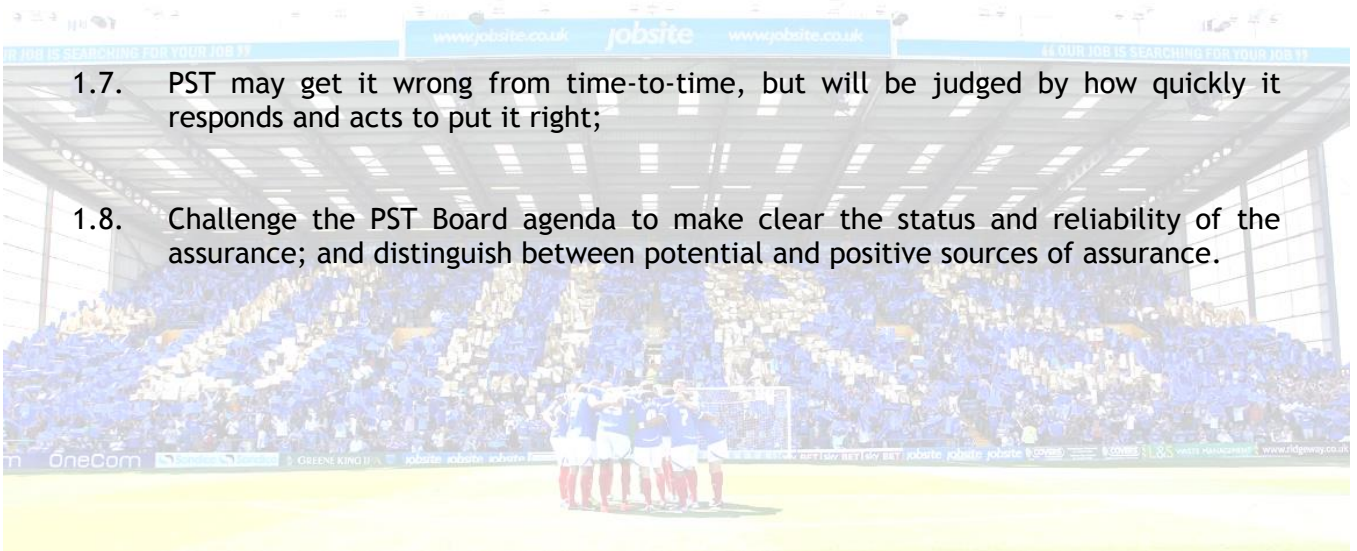
## 6. INFORMATION USED BY THE PST BOARD ASSURANCE FRAMEWORK



# 1. PST Board Assurance Framework (Principles and Guidelines)

- 1.1. The Board Assurance Framework is the means by which we hold ourselves to account;
- 1.2. The PST Board is responsible for affirming assurance is in place;
- 1.3. The Framework helps to clarify what risks will compromise PST strategic objectives;
- 1.4. PST has controls in place but they will weaken over time. The Framework is the means by which the PST assesses the validity and currency controls and updates where necessary;
- 1.5. It is the responsibility of the PST Chairman to assess and manage reputational risk;
- 1.6. Reputational risk is what really compromises the PST Board and the Society;

- 1.7. PST may get it wrong from time-to-time, but will be judged by how quickly it responds and acts to put it right;
- 1.8. Challenge the PST Board agenda to make clear the status and reliability of the assurance; and distinguish between potential and positive sources of assurance.



## 2. Introduction and Background

The main focus of the PST Board is strategic. PST Board members are required to understand the Society's objectives and be able to identify the principal risks that may threaten the achievement of these objectives. The role of the PST Board is to focus on those risks and events which may compromise the achievement of strategic objectives, and to support the creation of a culture that allows the Society to anticipate and respond to adverse events, unwelcome trends and significant business opportunities. Occasionally the PST Board will want to investigate a problem area and for this the Board will need the support of the PST Secretary and Officers to explore complex, specialist areas until it has the assurance it seeks. PST Board members may also need assistance in keeping the Risk Register up-to-date as well as collating and analysing trends. Hence, the PST Board Assurance Framework provides a structure and process that enables the Society to focus on those risks that might compromise achieving its most important (principal) annual objectives; and to map out both the key controls that should be in place to manage those objectives and to confirm the PST Board has gained sufficient assurance about the effectiveness of these controls. Further, the PST Board Assurance Framework is the key source of evidence that links strategic objectives to risks and assurances, and the main tool that the PST Board uses in discharging its overall responsibility for internal control. The value of a Board Assurance Framework is that it provides:

- A simple but comprehensive method for the effective and focused handling of the principal risks that arise in meeting objectives.
- A structure for the evidence to support compliance thresholds.
- Simplified Board reporting and prioritisation, which in turn allows more effective performance management.
- Means of reporting key information to Boards, but only when the Board Assurance Framework is maintained as a dynamic document.
- Identification of which of the Society's objectives are at risk because of the inadequacies in the operation of controls or where the organisation has insufficient assurance.
- Structured assurances about where risks are being managed effectively and that objectives are being delivered.
- A means for Boards to determine where to make the most efficient use of their resources and address the issues identified in order to improve performance and effectiveness.
- Identification of priorities for the Board, to provide confidence that the organisation is able to understand its capacity to deliver and is able to assess realistically the risks the organisation faces and the assumptions this is based on.

### The benefits of a working Board Assurance Framework

- Encourages individuals and groups within the organisation to think about and plan for the achievement of objectives in a proactive manner, with Board agendas focused on the strategic and reputational risks rather than operational issues.
- Highlights any gaps in control and assurance that may hinder the achievement of these objectives.
- Requires the active involvement of the Trust as a whole, including the PST Board, to make it work effectively.
- The Board needs to be confident that the systems, policies and risk leads are operating in an effective way and focused on the key risks and is driving the delivery of objectives.
- The Board Assurance Framework provides a framework for reporting key information to the PST Board. It provides a structured level of assurance about the management of the risks to the achievement of the Society's objectives.
- The regular review of the Board Assurance Framework through the year by the PST Board enables the PST Secretary to report as required to the Financial Conduct Authority (FCA) at the end of every financial year.

Hence, the PST Board needs to work at building this confidence concept of assurance as it can be a source of misunderstanding. Potentially, there can be a lack of clarity within, and

beyond the PST Board, as to what is meant by the term ‘assurance’. This can extend to uncertainty over the level of assurance required, where that assurance comes from and how the reporting of assurance is managed and coordinated. Community Benefit Societies, like other mutuals, are expected to design their own framework to deliver Society objectives within the context of an understanding of the principal risks. To that end, Boards must obtain assurances that the arrangements they have put in place to achieve the principal objectives, and to manage risks, are effective and operate as intended. It is important, therefore, that Boards have sufficient understanding of the techniques used by auditors and other reviewers to satisfy themselves that the assurance arrangements they have in place are both comprehensive and efficient. Moreover, the principles for achieving assurances are the same irrespective of the areas of activity involved. They all require ‘systems’ to be evaluated to ascertain their ability to prevent or minimise error and then checked to ensure they are actually working as intended; or if not, the effect of weaknesses. This is known as the systems audit approach. It provides an assurance about the whole system and assists in reducing ongoing problems. Whilst it is possible to gain some assurance through the examination of individual incidents or transactions, this can be very time-consuming and does not provide an insight into the whole system.

**The actions a Board should undertake:**

- Establish Principal Objectives.
- Identify the principal risks that may threaten the achievement of these objectives.
- Identify and evaluate the design of key controls.
- Set out the arrangements for obtaining assurance on the effectiveness of key controls.
- Evaluate the assurance across all areas of principal risk.
- Identify positive assurances and areas where there are gaps.
- Put in place plans to take corrective action where gaps have been identified.
- Maintain dynamic risk management arrangements including, crucially, a well-founded risk register.
- For Principal Objectives show the link between Strategic and Directorate level objectives. (see Appendix 1)

The PST Board Assurance Framework and diagnostic test (comparator) is designed and operated to meet the requirements of the 2015-2020 Strategic Plan and the Audit Group Report 2015 and identify risks and the robustness of PST Board Assurance Framework. It also provides reasonable assurance that there is an effective system of internal control to manage the principal risks identified by the Society.

Key Components	PST BAF Not evident	PST BAF does not meet reasonable achievement	PST BAF Meets reasonable achievement
1. The components are all present: Objectives; risks; controls; positive assurance; gaps in control and/or assurance and remedial action.			
2. The PST Board has been appropriately engaged in developing and maintaining the assurance framework.			
3. The objectives are sufficiently strategic, well balanced and across all areas of activity.			
4. The objectives explicitly reflect, or there is evidence that a separate framework is in place that adequately supports compliance.			
5. The risks are sufficiently strategic/high level and complete (potential risks not just residual risks).			
6. The key controls have been identified and evaluated with regard to their effectiveness to manage the risks.			
7. Potential sources of assurance have been identified.			
8. Results of real assurances have been included in the framework, which include positive assurances, and gaps in control and/or assurance identified where appropriate.			

9. The components of the framework have all been explicitly mapped out against each other so that an assurance can be mapped back to an objective with ease.			
10. The framework is fit for purpose and provides the PST Board with evidence based assurances on the way in which it manages the Society at a strategic level.			
11. Significant issues arising from the assurance framework are being escalated to the PST Board and can be traced through the PST Board agenda			
12. Arrangements are in place and are being followed to address gaps in control and/or gaps in assurance where the Board deems appropriate.			

Hence, PST must ensure that sufficient risk evidence is gathered and codified (rated) to demonstrate that PST have implemented processes appropriate to the level of risk. The PST Board Assurance Framework also links risk management to key Society objectives, and correspondingly forms an integrated part of PST Board oversight activities.

**PRINCIPAL OBJECTIVES**

**2.1. Collective Responsibility**

The PST Board must be appropriately engaged in developing and maintaining the PST Board Assurance Framework. It is the duty of the whole Board to probe, discuss and advise so that the PST Board can confirm, revise or update action plans as required. Scrutiny is therefore particularly important to the PST Board Assurance Framework process. Indeed, unless the PST Board adequately handles the Trust’s principal strategic risks, both reviewed and challenged, the PST Board will potentially become a ‘tick box’ body. Given the focus of the PST Board Assurance Framework upon Principal Objectives and the fact that it should be maintained to reflect current circumstances, it should be a key driver for the agenda of PST Board meetings. The Annual Plan for the PST Board and Audit Committee meetings is therefore explicitly linked to the PST Board Assurance Framework with summary sheets for agenda papers [cross-referenced].

**2.2. Audit Committee Role**

The Audit Committee will report to the PST Board annually on its work in support of the Principal Objectives (Strategic Plan), specifically commenting on the fit-for-purpose of the PST Board Assurance Framework; and the completeness and embeddedness of risk management in the Society; the integration of governance arrangements and the appropriateness of the self-assessment against benchmarked standards. The work of the Audit Committee, with regard to the PST Board Assurance Framework, should be to review the PST Board Assurance Framework to ensure that there is an appropriate spread of strategic objectives and that the main inherent/residual risks have been identified, as well as any that are newly arising. This is to ensure that there is no major omission. The review should be undertaken once a year to assure the Society that the process undertaken by the PST Board to populate the PST Board Assurance Framework is appropriate; and that ‘risk leads’ have been involved and take responsibility for their entries, and that there are no major omissions from the list of controls. This review could be carried out on the Committee's behalf by the Internal Auditors, although the Committee should specifically agree the Terms of Reference for this piece of work. The Audit Committee is responsible for monitoring the implementation of action plans that have been drawn up to cover gaps in controls, assurances and reports to the PST Board.

Furthermore, the PST Board is ultimately responsible for reviewing the results of assurances, either in whole or specific to a risk or objective, and the implications that these have on the achievement of objectives. In looking at the results of assurance work, the PST Board should concentrate on assessing whether the overall objective has been met, that the main controls

are operating as expected and that agreed actions for improvement are being implemented. Hence, the work of the Audit Committee is not to manage the process of populating the PST Assurance Framework or getting involved in the operational development of risk management processes, either at an overall level or at the level of individual risks. These are operational issues that the PST Board should satisfy itself are being carried out by the PST Secretary (oversight) and risk leads. It is the duty of PST Board members to ensure that they appropriately monitor PST significant risks and the associated controls and assurances. In particular, the PST Board should revisit action plans to address gaps in controls and assurance. The PST Board, usually through the Audit Committee, should ensure that all systems, processes and procedures required for the PST Board Assurance Framework function effectively, including where elements have been delegated to subcommittees who must take action and report on their specific responsibilities.

### **2.3. Assessing the PST Board Assurance Framework**

Supporters' Direct guidance on building Board Assurance Frameworks made clear that it is important for Society Boards to be able to evaluate the quality and robustness of their Board Assurance Framework and to have arrangements in place to keep it updated in the light of evidence from reviews and actual achievements. If conflicts appear between the Society's actual performance in a particular area and the assessment from the assurance framework reports, then the reasons need to be investigated. It may be that the objectives themselves need to be revised, the risks reassessed or the assurance on the effectiveness of the controls reviewed. Hence, the Framework needs to be integrated and understood, but challenged when one control lapses to retain assurance that other controls are not compromised. Indeed, most risks are assessed taking into account the existing controls and their effectiveness. Although this is a reasonable approach it should be understood that the effectiveness of existing controls can deteriorate. Unless the existing controls are also regularly monitored, this deterioration will go un-detected. This highlights a danger when Boards only see the high risks (rated 16). If these risk ratings take into account the existing controls it is the residual risk that is reported. It is likely that some of the risks will be inherently catastrophic if they materialised. The PST Board should, therefore, ensure that they look at the whole spectrum of activity of the Society and periodically review all the principal risks whatever the risk rating.

## **3. Overview of the PST Board Assurance Framework**

The PST Board Assurance Framework provides a structure and process that enables the PST to focus on the risks to achieving its most important (principal) annual objectives and be assured that adequate controls are operating to reduce these risks to acceptable levels. The primary benefit of using the PST Board Assurance Framework is that it encourages PST Board members and other stakeholders to think about and plan for the achievement of PST objectives in a proactive manner. It also highlights any gaps in control and assurance that may hinder the achievement of these objectives. The PST Board Assurance Framework process will be normally led by the PST Secretary working directly with the Board Chair, but it will require the active involvement of all PST Board members, members and stakeholders to make it work effectively. The PST Board has a responsibility to make formal public statements on the Society's ability to implement its objectives, including those which affect compliance. The PST Board Assurance Framework is informed by the self-assessment process and provides the evidence to support annual compliance and statutory obligation (FCA). Hence, this document describes how the organisation can best maintain the PST Board Assurance Framework in accordance with the requirements of regulators, auditors and policy/performance scrutiny.

### **PRINCIPAL OBJECTIVES**

A PST Board Assurance Framework must be driven by the objectives of PST, as clear strategic and operational objectives need to be identified before an effective system of internal control can be established. Without clear objectives, the Trust will be unable to identify and evaluate the risks that threaten the achievement of its goals and design and operate a



system of internal control to manage those risks. The Principal Objectives for PST should be determined by the PST Board, based on strategic priorities; and clearly stated in the Annual Plan. The Principal Objectives should be annually reviewed and updated in consultation with members at the Annual General Meeting (AGM). The PST Secretary will need to ensure with others that there is parity between the Principal Objectives; Annual plan and the Compliance Framework (statutory, regulatory and performance management obligations).

Potential risks to the achievement of the Trust's objectives are identified in two ways: (1) The 'top down' proactive identification of risks that directly affect PST achievement of its Principal Objectives, and (2) 'bottom up' assessment through the PST Risk Register. High-level risks in the PST Risk Register (red on red amber green (RAG) system or scored 16) should be reported regularly to the PST Board for consideration. The PST Secretary and the individual PST Board member responsible for the Risk Register in liaison with the Chair of the PST Board to ensure that there is cross-over, if necessary, from the Risk Register to the PST Board Assurance Framework and vice-versa. Therefore, high-level risks from the Risk Register will filter up for inclusion in the PST Board Assurance Framework, and specific risks from the PST Board Assurance Framework will filter down for inclusion in the Risk Register. All risks should be rated in line with guidance included in the *PST Risk Assessment and Risk Management Policy* and Strategic Plan. Hence, processes need to be in place to identify common risks/ themes across the different activities of PST; and a summary of the common risks needs to be included in the assurance framework along with a summary of the controls and action plans.

### 3.1. Controls, Assurances and Action Plans

Controls are the many different things that are in place to mitigate risk and assist in securing the delivery of objectives. They should make a risk less likely to happen, or reduce (mitigate) its effect if it does happen. The PST Board Assurance Framework requires PST to consider the effectiveness of each control through the process of obtaining assurances that the control is in place and is operating effectively. These assurances are obtained from a variety of sources, such as internal and external audit or other external assessments. For example,

- A gap in control is deemed to exist where adequate controls are not in place, or where collectively they are not sufficiently effective.
- A gap in assurance is deemed to exist where there is a failure to gain evidence that the controls are effective.

Wherever gaps in control or assurance are identified, action plans must be defined and allocated to appropriate 'risk leads' to ensure that the situation is remedied. Gaps in control and assurance should be reviewed both internally and externally.

### 3.2. Assurance, Evidence & Performance

Many organisations struggle with the concept of assurance and end up gathering mountains of 'evidence', much of which is only tangentially relevant to the item being assured.

Organisations should have a robust approach to gathering assurance (quality not quantity). The assurance process needs to take into account the following principles when evaluating assurances:

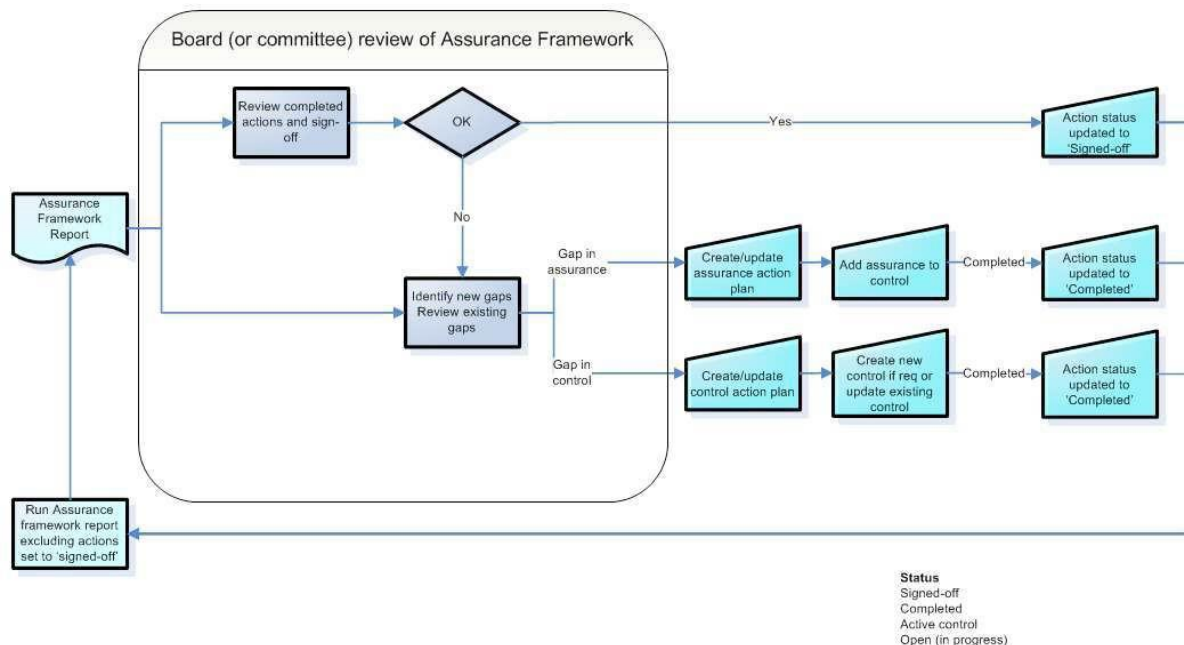
- Independent assurance (Auditor opinion) carries more weight than internal evidence produced by management.
- The best assurance is commissioned specifically to assure the PST Board a control is effective as opposed to the concept of presenting evidence that has only an indirect relevance to the control.
- Assurances are time-limited and should only be relied upon if they are current.
- It is important to differentiate between positive, negative and neutral opinion when using independent assurance.

- PST needs to ensure consistency when evaluating assurance.
- Explicitly identify where assurance is evidence based, and where surrogate data that has been used.

PST Board Assurance Framework will use both potential and positive sources of assurance that makes explicit to PST Board members the reliability of the assurance shown. The confidence to have a gap in the positive assurance column is also seen as a flag of the current state (rating) of risk. This will enable the PST Board to analyse the assurances and help identify where there are gaps and anomalies and to ensure key assurances are renewed. When gaps are identified, PST should prioritise action and ensure there is a robust system of managing the actions through to completion. Hence, the PST Board Assurance Framework should be informed by all necessary information sources, the strongest of these being the PST existing performance reports. Any area of non-compliance with benchmarked standards indicates that there is an associated risk that must be included in the PST Board Assurance Framework. Performance reports provide strong evidence of the effectiveness of control activities and should set out necessary improvements where controls are lacking. It follows that Performance reports generate valuable information for the PST Board Assurance Framework. PST should, therefore, integrate performance and risk management processes and reporting to highlight the relationships between actual performance and effectiveness of controls.

#### 4. PST Board Involvement

The Board must be appropriately engaged in developing and maintaining the PST Board Assurance Framework. Given the focus of the Board Assurance Framework upon Principal Objectives and the fact that it should be maintained to reflect current circumstances, it should be a key driver for the agenda of PST Board meetings. The Annual Plan for the PST Board and Audit and other Committee meetings should be explicitly linked to it and summary sheets for agenda papers cross-referenced. It is the duty of PST Board members to ensure that they appropriately monitor the Trust’s significant risks and the associated controls and assurances. In particular, the PST Board should focus upon the progress of action plans to address gaps in control and assurance. The PST Board should also ensure that all systems, processes and procedures required for the PST Board Assurance Framework function effectively. The following diagram below provides a ‘closed loop’ method of assuring the Board that gaps are systematically identified and closed to ensure the implementation of a robust PST Board agenda for the management of identified gaps in control or assurance:



Source: Dynamic Change Limited, all rights reserved.

The PST Board must demonstrate it has sufficient ‘control’; and update the PST Board Assurance Framework through the activities of monitoring, reviewing and reporting.

### 5. Maintaining and Updating the Trust Board Assurance Framework

The lead for the PST Board Assurance Framework is the PST Secretary. The PST Secretary is responsible for the day to day co-ordination and reporting of the Board Assurance Framework; and must ensure that information is collected, processed and reported accurately. This information is created by numerous sources within the Trust, either individually or collectively and although the PST Secretary may facilitate some of these groups success is dependent on each individual's contribution. It is the role of everyone in the Trust to contribute to the success of its governance arrangements. The Trust updates its Principal Objectives through the development of the Annual Strategic Planning process. The associated risks, controls, potential sources of assurance, actual assurances received and gaps in control or assurance will be determined within the PST Board Assurance Framework and updated on an ongoing basis.

The PST Board Assurance Framework must be dynamic to enable the PST Board to assure itself that all significant strategic risks are being managed effectively. This involves two distinct phases: firstly, the PST Board Assurance Framework should be updated with the progress towards closing the identified gaps in control and/or assurance. Secondly, a degree of independent scrutiny must take place over and above the involvement of the Audit Committees [internal audit] to ensure that these updates are valid. Both of these processes should also consider whether new risks have arisen to jeopardise the achievement of PST Principal Objectives. The process of updating the PST Board Assurance Framework will be facilitated by the PST Secretary but is completed with the full cooperation of all PST Board members. To assist in this process, the PST Board Assurance Framework should be referenced to and updated following Performance Reviews [Performance Standard Framework]. The progress of action plans and the associated updates to risks and controls should be reviewed regularly and the changes incorporated in the relevant entry.

#### 5.1. Scrutiny of the Board Assurance Framework

Independent scrutiny of the PST Board Assurance Framework (Audit Group) is particularly important to the governance process. Each year the PST Trust Board and/or the Audit Committee should consider the impact and necessary changes for the new PST Board Assurance Framework. The formal scrutiny of assurances will then be performed by the Audit Committee who will receive reports on the PST Board Assurance Framework, detailing new and deleted risks along with information on actions that have been taken towards mitigating risks. This oversight by the Audit Committee will provide overall assurance to the Board that their Assurance Framework is working effectively. The Audit Committee will consider, in particular, the ‘audit needs’ of the Society in terms of the sources of assurance, and ensure that there is a plan for these assurances to be received. This should be done at the start of the audit planning process and involve a detailed review of the current sources of assurance and the prioritisation process.

Further detailed scrutiny of the full Board Assurance Framework will be delegated by the Audit Committee, on behalf of the Trust Board, to the relevant subsidiary committees. This is to ensure cross over between the Risk Register and PST Board Assurance Framework and also ensure that any necessary further scrutiny of risks and assurances detailed within the Framework can be delegated to sub-committees who hold named responsibility for specific objectives. Sub-committees who hold responsibility for specific objectives will be charged with considering risks in relation to the objective it will inhibit if it occurs and the expected and actual controls in place to prevent it from occurring.

#### 5.2. Risk Leads on the PST Board

‘Risk Leads’ on the PST Board will be accountable for the proactive, timely and accurate review and update of all risks owned by their portfolio. This will include continuously

supporting risk owners, control owners and action owners to scrutinise their existing risks and progress made to reduce them. It is good practice for each level to be signed off by the person responsible until one reaches the top of the register itself. It is also an opportunity to identify any emerging new risks for assessment and inclusion in the Risk Register. It is critical that all PST Board members feel empowered to take action to mitigate risks close to the problem identified. When an incident occurs it must be reported but ameliorative action should not wait for long-winded review processes. The PST Board should evolve a risk management culture and then devise means for embedding it into organisation; and should be backed up by systematic mechanisms to record and communicate ameliorative actions. The Society should be aware of what has been done to its key systems and controls.

### 5.3. Roles and Responsibilities

The PST Secretary is responsible for the production and maintenance of an embedded PST Board Assurance Framework that is in-line with the needs of the Trust. The key activities of the PST Secretary within the context of the Board Assurance Framework comprise:

- Provide leadership, advice and guidance on the use and benefits of the Board Assurance Framework.
- Manage the systems that hold the information for the Board Assurance Framework.
- Regularly input all updates to the PST Board Assurance Framework.
- Co-ordinate and chase progress on all action plans related to and originating from the PST Board Assurance Framework.
- Audit and validate the PST Board Assurance Framework to ensure data integrity.
- Develop reports and procedures related to the PST Board Assurance Framework.
- Produce governance reports related to the PST Board Assurance Framework; and subsequently presented to the PST Board, Audit Committee, or other relevant Committees and individuals.
- Ensure that the PST Board Assurance Framework is shared with strategic partners.

## 6. Information used by the Trust Board Assurance Framework

The PST Board and subsidiary committees will review the PST Board Assurance Framework regularly. Examples of the information required to produce these reports is set out below:

### Principal Objectives

1. The Principal Objectives of the Society.
2. The principal risks identified from a 'top down' review of the Trust's principal objectives and 'bottom up' risks from portfolio holders.

### The Source of each Principal Risk and its Risk Rating

1. The Type of Each Principal Risk: Financial, Statutory and Reputation.
2. The Owner of Each Principal Risk: The person responsible for ensuring that adequate controls are identified to mitigate the risk, and adequate sources of assurance are sought to confirm that the controls are effective.
3. The Controls Associated with Each Principal Risk: The things in place to mitigate the risk and assist in securing delivery of the objective - these must be robust and specific, and properly match their associated objective.
4. Gaps in Control: Wherever adequate controls are not in place or not operating.
5. Source of Assurance: where evidence can be found that the controls are effective -this must identify specific documentary evidence, and be relevant to the associated control(s).
6. Assurance Status: This indicates the actual value of the assurance; and is the result of the assessment, investigation or audit, whether this is a surrogate measure or full evidence based.

7. Gaps in Assurance: Where evidence is inadequate to show that controls are effective.
8. Action Plan: What will/is being done to address the gap(s) in control/assurance?
9. Action Owner: Person(s) tasked with completing the action.
10. Target Date: The date by which the action should be completed.



# Whole Systems Assurance Framework



# PST Board Assurance Framework

