Combined Assurance (including Governance)
Agenda

1. Why we are seeing corporate failure?
2. What Board are saying?
3. What is combined assurance?
4. Challenges
5. Combined Assurance Model
6. Value of Combined Assurance
7. What key questions should you be asking?
8. Questions
Why are we seeing corporate failures

Reasons for significant value destruction across a number of industries over the past 3 years, globally and in South Africa (for example Steinhoff) highlighted several apparent failures in terms of:

• Understanding the nature and quantum of risk,

• Appropriate involvement in risk assurance oversight at Board level,

• Strategy and operating models that are able to appropriately respond to declining market conditions,

• Understanding relationships with key stakeholders,

• Regulatory compliance strategies that are able to deal with onerous and ever-changing laws, and

• Risk assurance strategies that provide not only appropriate levels of assurance, but also sufficient personal protection for the Board/Council and Executive management.
What Boards/Councils are saying?

“... I need assurance because...

... I need to know that everything is under control”.

... I need to know whether what I am being told is correct”.

... I need to be confident that I am going to achieve my organisational objectives and goals”.

... I need to know if things are going horribly wrong”.

... I need to know whether the project is going to finish on time and within budget”.
What is combined assurance?

- King III introduced combined assurance and in King IV the combined assurance *model* evolved.

- A combined assurance model incorporates and optimizes all assurance services and functions so that, taken as a whole, these *enable an effective control environment*; support the *integrity of information* used for internal decision-making by management, the governing body and its committees.
Combined Assurance Model

Governing body should assess the output of combined assurance, & form an opinion on the integrity of information & reports, & if an effective control environment has been achieved.

- Responsibility of governing body, may be delegated to audit committee
- Internal audit charter
- Ensure internal audit has the necessary skills & resources to address the complexity & risk faced by the organisation

Not prescribed by the Code. Allows for the governing body to use its judgement in this regard

- Effective internal control environment
- Supporting the integrity of information
- Supporting the integrity of external reports

- Responsibility of the governing body
- Consider legal requirements
- External reports should disclose information about the type of assurance process applied in that report
Governance responsibilities

1st line of defence
Primary responsibility for establishing effective governance and risk and control environment

2nd line of defence
Provides confidence that risk control environment is in place, fit for purpose and working as intended

3rd line of defence
Independent challenge – justifies that confidence
It’s important to get the balance across the 3LoD

Scenario A

1st line: Risk and control environment: **OK**
Ability to communicate this to the 2nd Line **poor**

Role of IA challenge – to help make risk and control environment *explicit and transparent* – **A Coaching Role**

2nd Lines increase demands on organisation to explain how objectives will be met and why they are so confident

Result

False Assurance

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Scenario B

1st line: Risk and control environment: **Weak**
But tells a good story able to diver 2nd L Line to other areas of the business

Role of IA challenge – to ensure risk and control environment is *in place, fit for purpose* and *working as intended* and that there is *justified confidence* in the assurances being provided by line management – **A Challenging role**

Result
Challenges

- Auditor General has reported overall regression in assurance provided by role players
- Lack of harmonization of assurance functions
- Tone at the Top – Risk Governance values, behaviours, expectations
- Silo agendas
- Lack of understanding of roles and responsibilities
- Inability to find common language and lack of agreement on definition of top risks
- Combined assurance is a watered-down internal and external audit coordination document
- The concept of ‘assurance’ is not understood or valued
Combined Assurance Overview

Combined Assurance brings together the business’ lines of assurance to most effectively and efficiently identify, manage and monitor key business risks, while aligning to strategy and enabling with technology; resulting in risk informed business decision making.

Effectiveness of Combined Assurance is dependent and enhanced by:
- **Mature Lines of Assurance Model**
- **Mature and effective Risk Management System**
- **Effective, clearly defined, established and well-functioning Governance Model**
- **Maturity of the organization’s risk and control culture**
**Principle 15:**
**Integrated Assurance – Drivers of Value**

<table>
<thead>
<tr>
<th>Key value driver objectives</th>
<th>Responsible committee</th>
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<tbody>
<tr>
<td>Achieve company strategy</td>
<td>Board / Investment Committee</td>
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<td>Achieve growth objectives</td>
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<td>Safe operating conditions</td>
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<td>Healthy workforce</td>
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<td>Environmentally responsible operations</td>
<td>Social and Ethics Committee</td>
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<td>Social mandate to operate</td>
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<td>Sound reputation and ethics</td>
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<td>Effective social stakeholder relations</td>
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<tr>
<td>Motivated workforce</td>
<td>Remuneration Committee</td>
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<tr>
<td>Achieve operational, profitability and liquidity objectives</td>
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<tr>
<td>Effective commercial and other stakeholder relations</td>
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<td>Comply with legislation and governance requirements</td>
<td>Audit Committee (responsible for combined assurance plan across all value drivers)</td>
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<td>Accurate and timely reporting</td>
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**Its important to understand the integrity of all assurance**

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<thead>
<tr>
<th>Performance Provider</th>
<th>Assurance Provider</th>
<th>Results</th>
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<tbody>
<tr>
<td></td>
<td>Management 1st line</td>
<td>Functional oversight 2nd line</td>
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<td>AAA</td>
<td>Cloud</td>
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<td>Commercial</td>
<td>3rd Party Assurance</td>
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<td>Inspection</td>
<td>Other</td>
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<td>Supply-Chain</td>
<td>Investigation</td>
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<td>External Audit</td>
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**Provider assessment**

- **Key:**
  - High Assurance
  - Moderate Assurance
  - Low Assurance
  - Relative strength of control environment

**Overall provision**

- **Key:**
  - Red: Gap in Plan
  - Orange: Opportunity to refocus
  - Green: Maintain current

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PwC
Combined Assurance Maturity Model

Laying the FOUNDATION
- Approval and adoption of Combined Assurance Framework
- Alignment of combined assurance with risk classification model
- Establish regular engagement between Lines of Assurance
- Integrated combined assurance planning - collaboration between assurance providers on scope and timing of assurance work
- Regular Combined Assurance reporting to Audit Committee

Building the STRUCTURE
- Defined and consistent identification of key processes and key controls across the lines of assurance
- Combined Assurance Reporting facilitates Integrated Board Oversight
- Formalised assurance methodologies for all three Lines of Assurance

Established & EMBEDDED
- Reliance on the work of other assurance providers (as appropriate)
- Consistent use of assurance methodologies
- Formalised assurance provided by Line1
- Embedded risk culture, including combined assurance, across the organisation
### The value of Combined Assurance

| 1 | Working off a common risk landscape and relevant assurance efforts are directed to the risks that matter most |
| 2 | A better understanding of the assurance focus of the organisation’s issues achieved through assurance providers |
| 3 | Reduces the likelihood of assurance risks “falling through the cracks” |
| 4 | Better coordination between assurance providers result in better planning of the timing of assurance on the business |
| 5 | Better utilisation and deployment of assurance resources which could ultimately result in cost-savings |
| 6 | Enhanced control environment, awareness and discipline – reports reach the right levels |
| 7 | Increased executive management and Audit Committee confidence |
| 8 | Single picture of assurance is formed |
What key questions should you be asking?

- Have you defined a governance framework which include a risk and combined assurance framework?
- Do all assurance providers understand their roles and responsibilities?
- Have you established a mechanism for regular engagement?
- Are risks contained in the Combined Assurance Plan the key top risks of the organisation? Does it adequately reflect the risk profile of the organisation?
- Are all areas of King IV addressed?
- How did management arrive at the view to include these risks in the Combined Assurance Plan?
- What has changed in the organization’s environment (internal and external) which could affect the top risks included in the Combined Assurance Plan?
- How did management arrive at their view of the level of assurance needed and planned for each key risk included on the Plan?
- How does the results of assurance affect the assessment of the control environment and risk?
- Will the plan support the AC disclosures with respect to control effectiveness?
Thank you

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Questions
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