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Combined Assurance (including Governance)

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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 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".

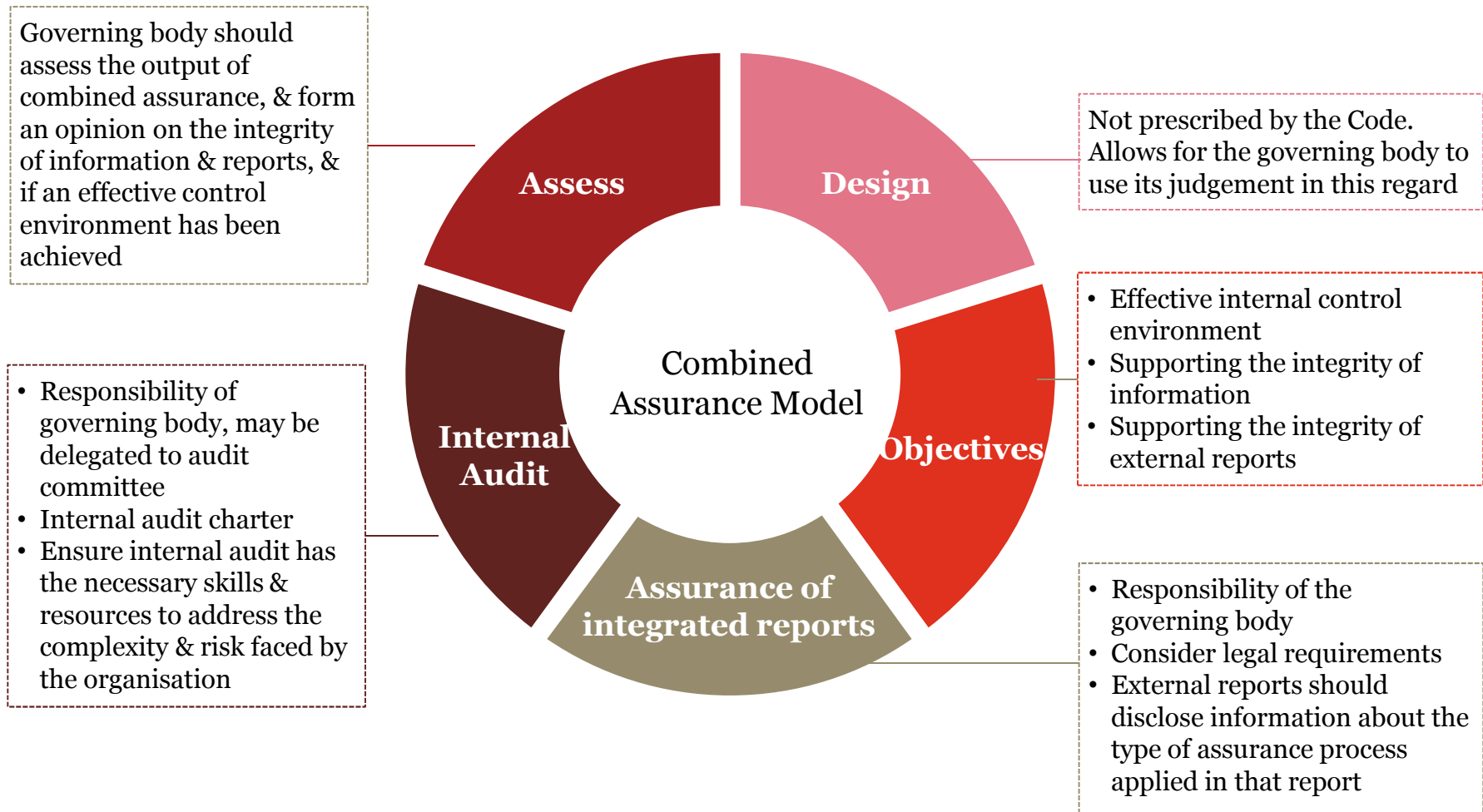
... I need to know if things are going horribly wrong".

... 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 incorporate 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.

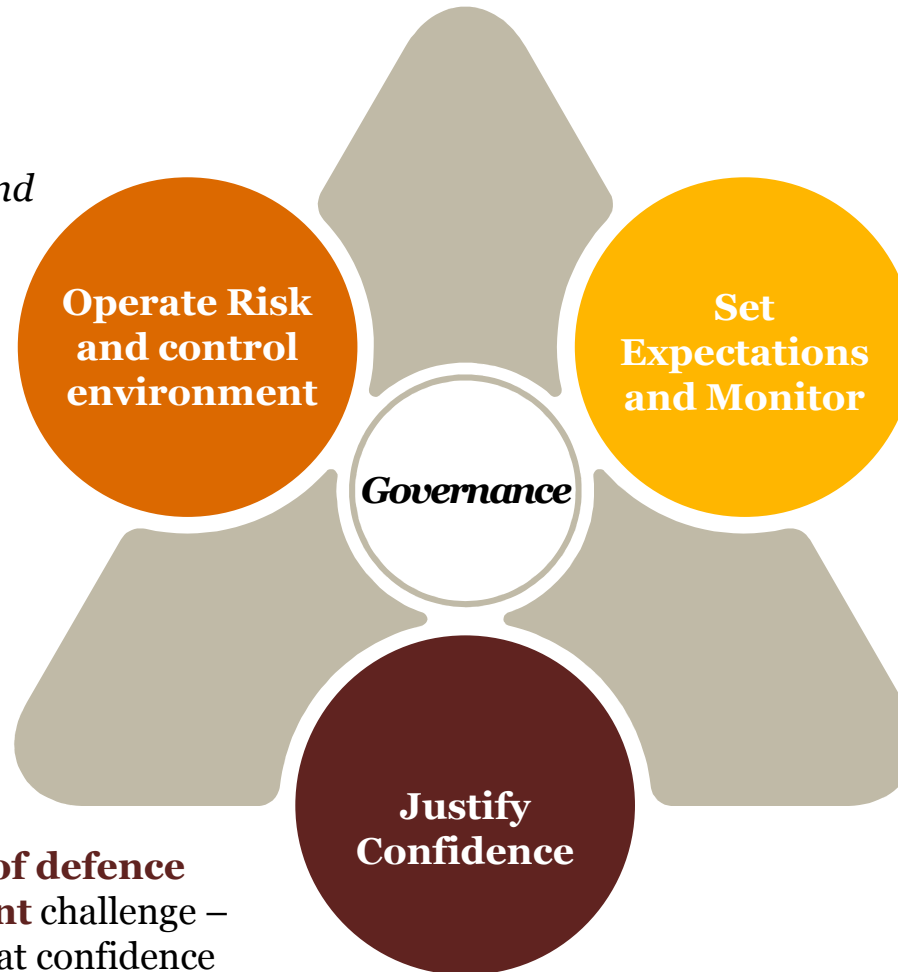
Combined Assurance Model



Governance responsibilities

1st line of defence

Primary responsibility for **establishing** effective governance and risk and control environment

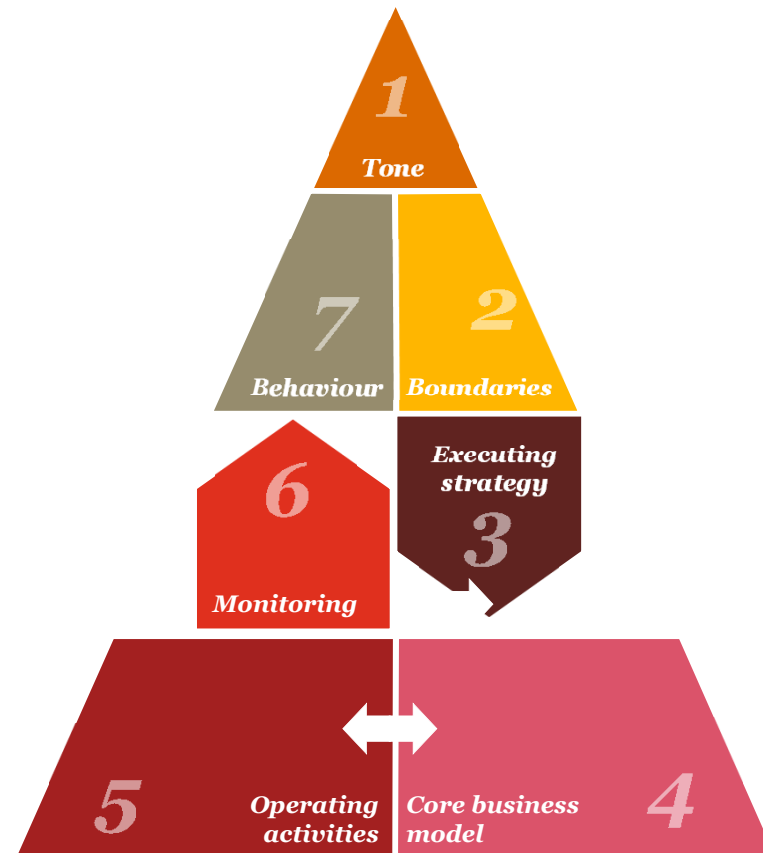


2nd line of defence

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

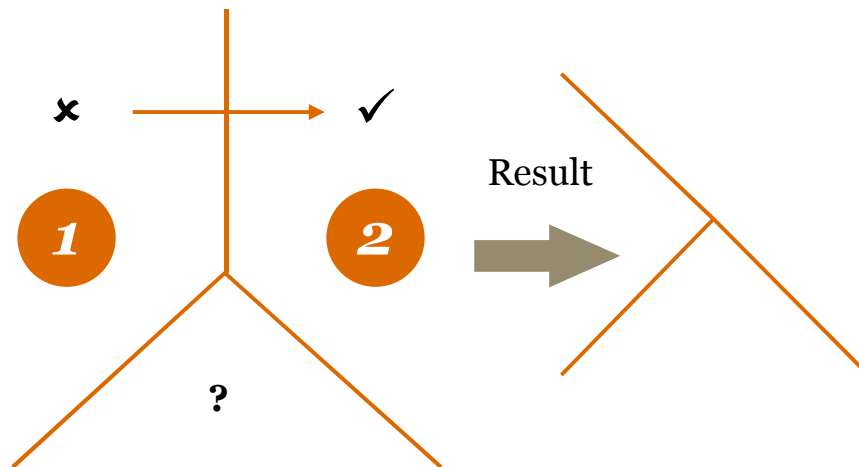
Governance model



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**

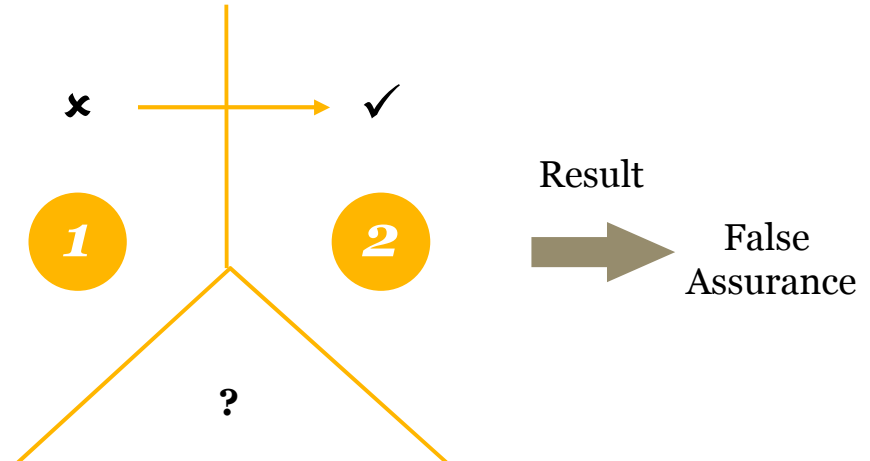


Role of IA challenge – to help make risk and control environment *explicit and transparent* – A Coaching Role

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

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



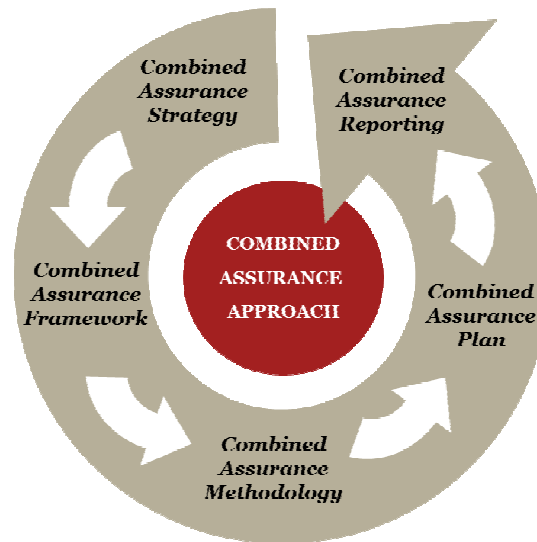
Role of IA challenge – to ensure risk and control environment is *in place, fit for purpose and working as intended* and that there is *justified confidence* in the assurances being provided by line management – A **Challenging role**

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**



Lines of Assurance

Components of the Combined Assurance Approach:

- The Combined Assurance Approach** integrates with and leverage off your ERM processes, systems and data
- The Combined Assurance Strategy** is aligned to your company's overall business strategy and risk strategy
- A Combined Assurance Framework** that governs and defines the roles, responsibilities and accountability for the Combined Assurance process within your business
- Combined Assurance Methodology** practically sets out the minimum guidelines to be applied in the combined assurance process stages (planning, execution and reporting)
- A Combined Assurance Plan** which clearly and directly link top risks with key mitigating controls, and the planned assurance reviews (by assurance provider) to gain comfort over the adequacy and effectiveness of the indicated key controls
- Combined Assurance Dashboard Reporting** which provides insights into assurance of top risks and key mitigating controls, and their impact on achieving your business' strategic objectives and performance goals and supports your Audit and Risk Committee in their responsibility for assessing the effectiveness and efficiency of the control environment

Principle 15 : Integrated Assurance – Drivers of Value

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

Its important to understand the integrity of all assurance

	<i>Performance Provider</i>								<i>Assurance Provider</i>								<i>Prior Year Review?</i>	<i>Results</i>		
	<i>Management 1st line</i>								<i>Functional oversight 2nd line</i>				<i>Independent 3rd line</i>		<i>Regulatory oversight 4th line</i>			<i>Assurance Required?</i>	<i>Include in IA Plan?</i>	
	AAA	Cloud	IT	Procurement	Legal	Commercial	Inspection	Supply Chain	ERM	Business Control	AAC	Compliance	IT Security	3 rd Party Assurance	Other	Investigation				External Audit
Strategic Risk	●	●	●	●						●				●	●			N	■	N
Financial Risk	●		●				●		●	●		●			●			Y	■	Y
Investment and Project Risk			●					●	●	●			●					Y	■	Y
Regulatory & Compliance		●			●					●	●	●		●				N	■	N
Operational – IT						●		●		●			●		●	●	●	Y	■	Y
Operational – People			●	●										●	●			N	■	N
Operational - Commercial			●								●				●			N	■	Y
Cyber Risk	●		●				●			●								Y	■	Y
Business Continuity			●	●					●					●				N	■	Y
Fraud Risk			●						●					●	●			Y	■	Y

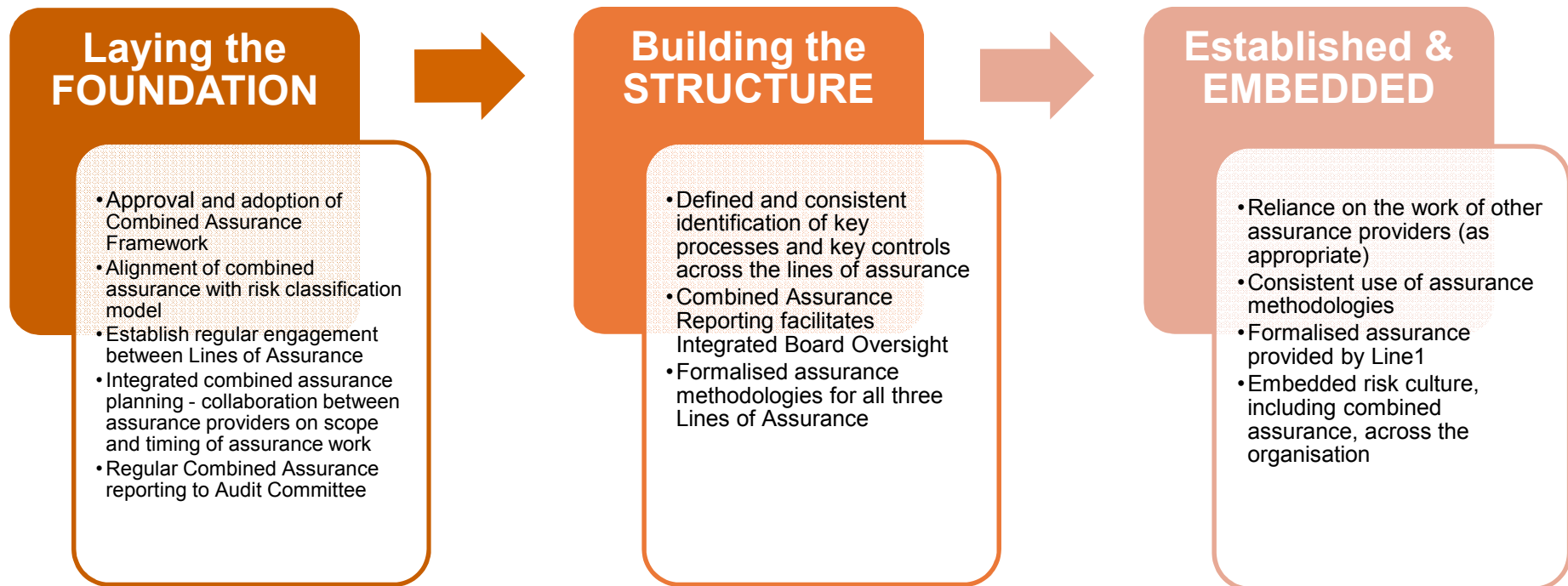
Provider assessment

Key: ● High Assurance ● Moderate Assurance ● Low Assurance
 ● Relative strength of control environment

Overall provision

Key: ■ Gap in Plan ■ Opportunity to refocus
 ■ Maintain current

Combined Assurance Maturity Model



The value of Combined Assurance

Working off a common risk landscape and relevant assurance efforts are directed to the risks that matter most

1

A better understanding of the assurance focus of the organisation's issues achieved through assurance providers

2

Reduces the likelihood of assurance risks "falling through the cracks"

3

Better coordination between assurance providers result in better planning of the timing of assurance on the business

4

Better utilisation and deployment of assurance resources which could ultimately result in cost-savings

5

Enhanced control environment, awareness and discipline – reports reach the right levels

6

Increased executive management and Audit Committee confidence

7

Single picture of assurance is formed

8

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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