Combined assurance
Taking corporations to the next level of maturity

White paper
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Combined assurance: taking corporations to the next level of maturity

Simply put, assurance providers are the internal and external people who tell managers what is on track and what is not within the company. They provide managers with information about the risks (hazards and opportunities) that have been identified within an organisation.

They provide information about the measures that have been put in place to prevent hazards from occurring and reduce their negative impact if they do.

Further, they report on opportunities, particularly those in line with the company’s strategic objectives, and the steps that have been taken to encourage these positive events.

Both functions are vital to an organisation’s health, heading off dangers and controlling damage while also eliminating the risk of not achieving strategic objectives.

However, assurance providers create a mass of reports, generating so much information that much of its value is lost as managers battle to account for it in their decision making processes; while duplication and overlaps reported from several perspectives often skews the view.

Enter combined assurance
This is the key role of combined assurance. Combined assurance can, if properly planned, implemented and run, reduce information clutter, cut costs, eliminate unnecessary duplication and allow managers to extract real value from the information their organisations are paying so much to gather.

Not surprising, therefore, that King III – which formalised the concept - recommends that every company adopts the disciplines inherent in combined assurance.

Do we have to? It sounds very nice but we have so much on our plate.
The short answer is no. However, according to JSE regulations listed companies must either comply or explain why they did not. Where companies have partial compliance, they must report where they comply and where they do not.

Mature combined assurance provides managers with a better view of their companies, allowing them to make better decisions and run more effective organisations. Investors will be watching and the adoption of combined assurance could have an effect on companies’ cost of capital.

Companies with effective combined assurance programmes in place will also be making their lives a lot easier when it comes to integrated reporting and providing authoritative written assessments of the control environment.

Okay where to now?
The first step on the journey to achieving effective combined assurance is to identify all a company’s internal and external assurance providers including line managers; specialist managers with particular assurance responsibilities, such as health and safety, risk management, and internal audit; and external independent assurance providers such as the company’s auditors, actuaries, and tax consultants.

In the process, all the assurances are identified and mapped to the key risks facing the organisation. Assurances are also assigned to the most appropriate parties and expensive, unnecessary duplication is eliminated and the entire assurance process is optimised. At the same time, some overlap is retained where
necessary for additional security. The process also helps to highlight blind spots or assurance gaps so that the board can opt to plan or request additional assurance where appropriate.

Another task during the planning phase is to agree standardised measures that will be applied in future. This stage is also used to eliminate confusion and misunderstandings by merging the various “jargon dictionaries” within the company to create a common assurance language.

This all needs to be documented so that the company’s policy and definitions are recorded for reference purposes. In this way internal and external assurance providers can be kept on track and new people brought up to speed rapidly.

**How long is a piece of string?**
With the planning in place, or at least some of it, assurance providers need to start measuring, while keeping in mind that developing a mature combined assurance programme is a journey not instant coffee. Organisations will be at different stages of maturity depending on the size and nature of their businesses as well as the foresight of senior management. However, as with any process, mistakes will be made. The lessons learned can then be incorporated into the programme.

It is also necessary to establish preset bands – a range that is considered acceptable or desirable – that will be the company’s target and risk tolerances. When measures move out of these parameters they can be red flagged to speedily attract management attention.

**Refining the ore**
All the reports are useful in themselves but while this layer within the programme reduces the overall number of reports, there are often still too many for any senior executive to study.

Therefore, every organisation needs a combined assurance “owner” or coordinator to bring all the information together, refine it and distil it to the essence.

King III recommends that the Internet Audit department facilitate this process, on behalf of the Audit Committee who is responsible for driving the initiative.

Often this function is performed very effectively by an organisation’s internal audit department or its risk management function, whichever is best suited to the task in terms of capacity, structure and maturity. Both need to be involved for greatest effect.

However, some internal audit and risk management departments are not sufficiently mature to cope with the new responsibilities.

In such cases organisations can define the shortfall and develop the necessary capacity within these departments.

A modification to this approach that is winning support in forward thinking companies is giving an existing exco member the additional responsibilities of specialist senior combined assurance executive. This individual delegates to internal audit and risk management and ensures that combined assurance has a high level champion on the board and the executive committee.

This also keeps strategic objectives at the core of combined assurance and resolves any conflicts or disagreements speedily.

This layer in the process is vital as the refined data it develops are used to drive executive management and audit committee dashboards so they can track assurances at a glance and immediately pick up any exceptions or red flags.

An enhancement to the dashboard is to tailor each person’s view of the dashboard so it more readily and speedily accommodates their needs. All the information is there and it remains the same but the presentation is geared to the individual/committee.

**Reacting to the red flags**
When exceptions appear the groundwork pays off. During the planning phase assurance providers are all identified which creates a path to quickly track information to its source and initiate action, if this is not already taking place.

Given the simple layered structured, negative events should already have triggered action from the head of combined assurance, internal audit, and risk management, if not from line managers or external service providers.
Escalation is a key factor in avoiding really nasty surprises as it gives people in the organisation the ability to respond to events and raise the priority and bypass the reporting cycle where necessary.

Don’t stop now
Having invested time and effort establishing combined assurance within the enterprise, it is time to begin extracting maximum benefits for the organisation.

Regular reviews of the process are used to fine-tune and optimise the process and ensure that the combined assurance programme evolves in line with the company, its strategic objectives, and the market conditions in which it operates.

It will be a rare organisation that is able to achieve cost efficiencies in the first cycle but as the process is refined so management will see cost reductions feeding through to the bottom line.

Challenges on the way ahead
The first key to success is to ensure that combined assurance is implemented as an enhancement to the processes, policies and procedures that companies already have in place. It is not a new layer of cost, responsibility and oversight and not a project that takes place in isolation.

It does require an investment in time, resources and money. In addition, as with any enhancement to existing methods, change management issues will arise that need to be dealt with pro-actively to bring everyone in the organisation onboard.

Senior management involvement is critical and successful implementations are driven from the top down.

Resource planning also needs to take place to accommodate implementation as internal audit and/or risk management concentration may be diverted. However, applying additional temporary resources to more routine matters can often avoid any fallout as a result of this loss of focus.

Transparency is one of the desired outcomes of the process. As with any exercise in self-examination, companies are likely to uncover some surprises and this may be more noticeable in organisations with silo structures.

While not all the discoveries will be pleasant, once they are known, management is in a position to take action.

The approach to written assessment will be a topic of a future white paper.

Further, some information emerging from the combined assurance programme may be negative in terms of shareholder perceptions of the company.

However, managers that keep their shareholders fully informed about their companies usually enjoy better relationships with their investors. Shareholders want to be told what has happened and why and what is being done to fix the situation and make sure it does not happen again.

Investors also want targets and measures in place so they can assess management’s progress. As has been shown in the past, shareholders reward companies they trust.

Written assessment
Another challenge that has emerged from King III is that the board and the audit committee have to provide a written assessment in the annual report on the manner in which the company is being managed, namely the internal control environment.

The extent of work that needs to be done to enable internal audit to write a written assessment is often not understood. Organisations need to plan well in order to conclude on organisational controls. Making a decision on whether a positive or negative assurance statement will be made needs to also be considered in advance.

Having combined assurance in place will help to ensure that the audit committee have the information they need, on their dashboards, to make an accurate assessment. This provides stakeholders with more comfort and the confidence that management can achieve its objectives and prevent hazards from materially damaging the business.

The penalties for a false or inaccurate assessment are very evident. In addition to falling foul of the JSE, shareholders will soon punish any non-compliant company, raising its cost of capital substantially.
**Benefits: getting the payoff**

A key benefit that is highlighted continually is that combined assurance gives management and audit committee members peace of mind.

Literally, there are fewer surprises and those that occur are highlighted sooner.

People have a better view of the company and know which areas are working well, where issues may develop, and where action is being taken.

As a result, managers are more responsive and flexible and usually a lot more proactive.

Costs are reduced. Internal resources are no longer being wasted on unnecessary duplication and, instead, resources are freed up for more productive tasks.

In addition, when combined assurance is entrenched, organisations can stop paying a lot of money to their external assurance providers to do more than is needed.

Shareholder confidence is also enhanced by the knowledge that companies have adopted combined assurance and that managers are, therefore, able to provide accurate assurances and not simply guesswork.

Directors are being increasingly held accountable in their personal capacities and active combined assurance programmes provide wise directors with a lot more comfort.

The process demonstrates that managers and directors have established the necessary steps to enhance their internal controls.

The combined assurance pyramid (Figure 3) ensures that the right information is measured and gathered by the right people in the first layer.

The data is refined in the second and passed on to the top of the pyramid to the directors, managers and audit committee members in a readily digested form.

As a consequence of the measurable benefits that flow from effective combined assurance, organisations that opt for compliance will enjoy a competitive edge that their less nimble peers will eventually be forced to follow.