National Treasury

Combined Assurance
Practical Approach and Reporting Key Learning's

28 February 2013
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Introduction
Combined Assurance information sharing

To increase the value added to the organisation by Internal Audit and improve coverage of the wider audit universe through combined assurance.

Objective of information sharing is to understand:

- The global reference – assurance mapping, King III
- Difference between integrated assurance and combined assurance
- ERM fundamentals on which to base combined assurance
- Different approaches applied by organisations
- Reporting at entity level and at governance levels
Positioning combined assurance
Positioning combined assurance

Combined Assurance enables consolidated reporting of assurance activities

- King III (South Africa)
Global reference – Practice Advisory 2050-2 – Assurance Mapping

• This guidance addresses how the Board is responsible for ensuring that business-critical risks are being assured and adequately managed.

• Assurance is provided by a broad range of departments, differentiated by the stakeholders served; for example — those who report to management, those who report to the Board / Accounting authority, and those who report to external stakeholders.

• An “assurance map” is an organizational tool that will prevent redundancy, as well as some areas falling through the cracks.
Global reference – Practice Advisory 2050-2 – Assurance Mapping

Responsibility

Internal auditors typically provide assurance over the entire organization. Input of many others is critical, including:

✓ senior management;
✓ external auditors;
✓ Compliance;
✓ quality assurance;
✓ risk management;
✓ environmental auditors;
✓ health and safety auditors;
✓ government auditors;
✓ financial reporting review teams; and
✓ subcommittees of the board.
Global reference – Practice Advisory 2050-2 – Assurance Mapping

Purpose

An assurance map streamlines the processes regarding:

1. who is doing what;
2. what has been done to date; and
3. provides comfort to those at the top by demonstrating that all participants are being responsible and accountable.
**King III**

Combined assurance should be based on identified risks and how assurance is achieved and reported to the Board / Accounting Authority.
Combined Assurance Concepts and Experience
**Combined Assurance Concepts and Experience**

**Combined Assurance promotes efficiency**

- What is Combined Assurance
- Combined Assurance Model
- Benefits of Combined Assurance
- Understanding assurance – the 3 lines of defence.
- Difference between Integrated Assurance and Combined Assurance
- ERM fundamentals
- Different Approaches
- Value add
- Combined Assurance responsibilities
What is Combined Assurance

- Combined Assurance integrates and co-ordinates all assurance activities
- How?
  - Understanding group risks;
  - Understanding who are all the assurance providers;
  - Realisation of what is actually assurance;
  - Reported within the governance structures;
  - Aligning assurance to the critical risk exposures;
  - Coordinating the assurance activities; and
  - Consolidating the risk and assurance profile.
Combined Assurance Model

Management

Internal assurance providers

External assurance providers

Combined assurance

Risk areas affecting the company

PwC
By effectively implementing combined assurance, a number of tangible benefits that extend well beyond proving compliance can be realised, including among others:

- More coordinated and relevant assurance efforts focusing on key risk exposures;
- Minimising business/operational disruptions;
- A comprehensive and prioritised approach in tracking of remedial actions on identified improvement opportunities/weaknesses;
- Improved reporting to the Board / Accounting Authority and committees, including reducing the repetition of reports being reviewed by different committees;
- A possible reduction in assurance costs; and
- Support the Audit and Risk Committee and Board / Accounting Authority in making their control statements in the integrated report.
## Understanding Assurance – the 3 Lines of Defence

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Management Oversight</strong></td>
<td><strong>Management of Risk</strong></td>
<td><strong>Independent Assurance</strong></td>
</tr>
<tr>
<td><em>Nature of Assurance:</em> Line management is accountable and responsible for the management of risk and performance. A key element of this activity is the extent of management reviews and the actions that follow. Management can establish a system of self-assessment/audits to inform them on the adequacy of risk management activities.</td>
<td><em>Nature of Assurance:</em> Corporate functions provide support to line management in executing their duties. These include functions such as HR, procurement, compliance, risk management, quality assurance, Health and Safety, SOX, Tax, Engineering, Forensic (Fraud Risk Management), OEMs, Insurance, Actuaries.</td>
<td><em>Nature of Assurance:</em> Internal audit, Certifications, Regulator reviews, External Audit, Technical Audit, Forensic Investigations, external asset management reviews (e.g. Matrix), valuators, culture climate surveys, assessment of ore/mineral reserves (SRK).</td>
</tr>
<tr>
<td><strong>Reporting lines:</strong> Executive Management Committees and Operational Committees providing direction, guidance and oversight over the focus the areas.</td>
<td><strong>Reporting lines:</strong> Risk Committees, Compliance Committee, Audit Committees, Regulatory Forums, HR Forums, Health and Safety briefings.</td>
<td><strong>Reporting lines:</strong> Regulators, Board and Audit Committees, (objectivity is a key criteria), C Suite</td>
</tr>
</tbody>
</table>

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Combined Assurance

PwC
**Integrated Assurance - definitions**

An integrated and coordinated approach by Assurance Providers that can be the basis of the Board / Accounting Authority in assessing whether the organisation will be able to execute its strategies successfully to achieve its organisational objectives.

A combination of two or more service providers for the purpose of providing the most effective and complete independent assessment on risk management, control, and governance processes for the organisation.
Integrated Assurance

Reasons for failures to implement successfully

• Often the providers of assurance do not use a common focus in order to understand their organisations and therefore fail to develop an integrated assurance model which provides powerful and meaningful assurance.

• Silos exist and good practice is not shared or leveraged off in order to provide deeper integrated assurance.
ERM fundamentals for combined assurance

- Risk naming conventions
- Shared understanding of risk and control information
- Proper risk description
- Agreement on residual risk exposure and target (desired) risk rating
- Understanding if controls really mitigate risk exposure
- Does the information on incidents feed back to the risk register
Combined Assurance Approaches

- **Top-Down** or
- **Bottom-Up**
**Top-Down Approach**

- Assess Assurance Received
- Identify Risk Owners
- Identify Control Strategies
- Identify Assurance Providers
- Assess Assurance Providers
- Organisation Strategic Risks per Risk System

**TOP DOWN MATRIX**
Combined Assurance Approaches

• Top-Down
• Bottom-Up
Combined Assurance Approaches – Bottom Up

- Two by one week review windows for each department, each year:
  - 1 Technical Review window and 1 Commercial Review window.
- Reviews by “offsite” subject matter experts to be conducted during these time windows
- Reviews to be co-ordinated by Internal Audit
- An experienced leader appointed to manage each departmental review
- Reviews cover system compliance and effectiveness and opportunities
- Review findings are prioritised and ranked
- Review findings are referenced back to the risk register
What value has Combined Assurance added to organisations

• Understanding who are all the assurance providers
• Realisation of what is actually assured
• Reported within the governance structures
• Aligning assurance to the critical risk exposures
• Coordinating the assurance activities
• Consolidating the risk and assurance profile
• oneERP
**Combined Assurance responsibilities**

**Board / Accounting Authority**

The Board / Accounting Authority is responsible to publish an assessment of the state of risk management and internal controls on the recommendations of the Audit Committee.

**Audit Committee**

The Audit Committee is responsible to provide the oversight for combined assurance and will provide the Board / Accounting Authority with a written assessment on the state of risk management. The statement will be prepared by the Chief Audit Executive. The Audit Committee will provide approval of the combined assurance scope and coverage, provide oversight of the monitoring and consider the assurance provided.
Combined Assurance responsibilities

Risk Committee
The Risk Committee will approve the risk management plan and risk profiles. This Committee should make recommendations to the Audit Committee on the combined assurance proposed scope and coverage and deliberate the assurance provided in conjunction with the Audit Committee to cover overlaps and gaps.

Risk Owner
It is the role of the Risk Owner to ensure that the first line of defence is effective.
Combined Assurance responsibilities

**Chief Risk Officer**

The Chief Risk Officer will be supported by a Combined Assurance forum.

**Combined Assurance Forum**

The purpose of the Combined Assurance Forum is to implement and embed the combined assurance framework principles as approved by the Audit Committee.
Combined Assurance responsibilities

Objectives of the Combined Assurance Forum

• Engage with the Board / Accounting Authority, through the Audit Committee, to determine the desired level of assurance required in each area;

• Review all assurance activities on a quarterly basis;

• Highlight and review the current areas of concern (emerging and/or existing risk) for management;

• Ensures coordination, reporting and communication to stakeholders;

• Develop a common view of the risk themes; and

• Agree on the future assurance activity to ensure broad and efficient coverage.
Reporting
Combined Assurance reduce the duplication of information

- Different Combined Assurance approaches produce different reports.
- The following reports can be produced by following various approaches.
## Combined Assurance Approaches

<table>
<thead>
<tr>
<th>Risk No</th>
<th>Risks</th>
<th>Line 1</th>
<th>Line 2</th>
<th>Line 3</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Control Self Assessment</td>
<td>Management Review</td>
<td>IRM</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Actual</td>
<td>Proposed</td>
<td>Actual</td>
</tr>
<tr>
<td>1</td>
<td>ABC is unable to control minimise reputational damage during crises and unable to restore reputation due to non approval of communication strategies</td>
<td>Not applicable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>Uninformed, de-motivated workforce caused by lack of relevant and timely communication</td>
<td>Not applicable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Not meeting the milestones for new organisational design</td>
<td>Not applicable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Equipment theft &amp; vandalism</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Energy theft</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Inability to collect all our revenue</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Inadequate Engineering Definition During Project Planning and Development</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Delays in Acquiring Servitudes</td>
<td>Not applicable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>Investment decision delays</td>
<td>Not applicable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Primary Energy Challenges</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Shareholder support</td>
<td>Not applicable</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Loan - Inadequate revenue to service Investec Loan</td>
<td>Not applicable</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Assurance per the three lines of defence per division

<table>
<thead>
<tr>
<th>Division</th>
<th>Number of Risks</th>
<th>No Assurance</th>
<th>Limited Assurance</th>
<th>Adequate Assurance</th>
<th>Not Assessed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Line 1</td>
<td>Line 2</td>
<td>Line 3</td>
<td>Line 1</td>
</tr>
<tr>
<td>Corporate Affairs</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td></td>
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<tr>
<td>Delivery Unit</td>
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<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
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<tr>
<td>Distribution</td>
<td>3</td>
<td>3</td>
<td>1</td>
<td>3</td>
<td>1</td>
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<tr>
<td>Enterprises Division Group Capital</td>
<td>4</td>
<td>3</td>
<td>3</td>
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<td>ABC Enterprise</td>
<td>2</td>
<td>2</td>
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<td>3</td>
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<tr>
<td>ABC International</td>
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<td>1</td>
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<tr>
<td>Finance</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>3</td>
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<td>Generation</td>
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<td>Group IT</td>
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<td>4</td>
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<td>2</td>
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<tr>
<td>Group Technology</td>
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<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human Recourse</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary Energy</td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Strategy and Risk (N1)</td>
<td>3</td>
<td>3</td>
<td></td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Transmission</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>TST</td>
<td>5</td>
<td>1</td>
<td>1</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

PwC
Graph – Depiction of assurance provided on ABC 40 Priority 1 Risks
## Combined Assurance Approaches

<table>
<thead>
<tr>
<th>Risks</th>
<th>Number of Risks</th>
<th>No Assurance</th>
<th>Limited Assurance</th>
<th>Adequate Assurance</th>
<th>Over Assurance</th>
<th>Not Assessed</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABC South Africa Top 12 Risks</td>
<td>12</td>
<td>0</td>
<td>4</td>
<td>7</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>ABC Top Asset Risks</td>
<td>8</td>
<td>0</td>
<td>1</td>
<td>7</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Business Process Risks (Excluding Top 12 &amp; Asset Risks)</td>
<td>48</td>
<td>0</td>
<td>21</td>
<td>27</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>68</td>
<td>0</td>
<td>26</td>
<td>41</td>
<td>0</td>
<td>1</td>
</tr>
</tbody>
</table>

### Assurance Assessment

![Assurance Assessment Chart]

- **Over Assurance**: 0% of total risks
- **No Assurance**: 0% of total risks
- **Not Assessed**: 1% of total risks
- **Limited Assurance**: 39% of total risks
- **Adequate Assurance**: 61% of total risks

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## Combined Assurance Approaches

<table>
<thead>
<tr>
<th>Ref No</th>
<th>Risk description</th>
<th>Mitigating actions (existing or planned)</th>
<th>Accountable</th>
<th>Responsible</th>
<th>Assurance Provider</th>
<th>Nature of Assurance</th>
<th>To whom reported</th>
<th>Management Assessment</th>
<th>Comment</th>
</tr>
</thead>
</table>
Case Study

Application of combined assurance to risk data within a Utilities and Energy Environment
**Case study: A Utilities Environment**

*This organisation is one of the top 20 utilities in the world by generation capacity. It generates approximately 95% of countries electricity and 45% for the continent*

<table>
<thead>
<tr>
<th>Stage 1</th>
<th>Stage 2</th>
<th>Stage 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Start</strong></td>
<td><strong>Assess the level of assurance in place for the Top Strategic organisational risks</strong></td>
<td><strong>Populate and validate the combined assurance model</strong></td>
</tr>
<tr>
<td>No complete view of levels of assurance within the business.</td>
<td></td>
<td>Assess the level of assurance in place for the Top Strategic organisational risks</td>
</tr>
<tr>
<td><strong>Need</strong></td>
<td></td>
<td>Obtained from management the assurance reports and assessed the level of assurance provided by the three lines of defence to provide management with a view of whether there is adequate and sufficient assurance and/or to identify gaps in assurance for remedial action.</td>
</tr>
<tr>
<td>No appropriate reporting of assurance.</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Approach &amp; Rationale</strong></td>
<td></td>
<td>The map enabled senior management to understand the assurance picture and to recognise the need for Internal Audit focus on both core and non-core assurance areas to ensure that assurance provision matched the assurance need.</td>
</tr>
<tr>
<td></td>
<td>Critical to this process was the identification of an internal management champion to drive the process. Input and interaction with Internal Audit</td>
<td>This enabled management to:</td>
</tr>
<tr>
<td>We worked with management to build a map which clearly defined:</td>
<td><strong>Understand the strategic risk through meetings with the risk owners. Provide guidance and advise on the adequacy of the risks definitions. Understand the controls and mitigation strategies implemented to address the risk. Identify the assurance providers and type of assurance being provided for the risk</strong></td>
<td>• understand assurance needs and current provision;</td>
</tr>
<tr>
<td>• Stakeholder assurance needs;</td>
<td></td>
<td>• enabled IA to focus on areas of high assurance need / risk; and</td>
</tr>
<tr>
<td>• current sources of assurance; and</td>
<td></td>
<td>• highlighted potential assurance gaps and/or duplicate activities</td>
</tr>
<tr>
<td>• a framework for assessing assurance providers.</td>
<td></td>
<td>Not all information regarding as assurance was assurance.</td>
</tr>
<tr>
<td>One power station was selected as a pilot project to map the various assurance providers against the risk profile of the station.</td>
<td></td>
<td>Controls relating to the risk did not define the mitigation activities or provide assurance that they mitigated the risk in all instances.</td>
</tr>
<tr>
<td>Primary drivers were compliance with King III and to have a view of the current level of assurance for the top priority organisational risks.</td>
<td></td>
<td>Management could not substantiate the evidence of assurance t</td>
</tr>
<tr>
<td>The first step in the process was getting buy in from an Executive Sponsor.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The next critical item was identifying a champion to drive the process. Scheduling Combined Assurance planning workshops with key stakeholders.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Implementing a common framework that is tailored to the business.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A lack of education and understanding of key Combined Assurance principles often leads to difficulty in attaining buy in from the individual assurance functions.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A lack of education and understanding of key Combined Assurance principles often leads to difficulty in attaining buy in from the individual assurance functions.</td>
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</tbody>
</table>
**Activity**

Description:

- Review the risk data and information provided by management during the interviews on the next slide and comment on

1) The adequacy of risk definition
2) The adequacy of the controls per the system and per the management discussion
3) Review the information sourced from management (risk owner and coordinator) and categorise it in terms of the three lines of defence
4) Comment on the adequacy of the combined assurance (assume the management information is accurate and can be substantiated and supported)

Time:

- 15 minutes.
## Activity (cont.1)

<table>
<thead>
<tr>
<th>Risks</th>
<th>Controls as per system</th>
<th>Controls as per discussion with the business</th>
<th>Nature of Assurance</th>
</tr>
</thead>
</table>
| ABC is unable to control minimise reputational damage during crises and unable to restore reputation due to non approval of communication strategies. | Annual report Comms strategy developed but not approved Crisis comms centre ERCC in place | •Reputational strategy in place.  
•Annual RepTrak assessment conducted to obtain an organisational rating which is reported at Manco, ABC Exco and the Board.  
•Reputation training is provided to ABC employees.  
•Weekly trigger reports are prepared which indicate what is happening in ABC and surroundings. The weekly triggers looks at a forecast of two weeks.  
ABC employees have been interviewed on how they perceive ABC. Stakeholder interviews in process.  
Policies and procedures have been drafted  
Reputational awareness training has been provided.  
•A weekly crisis meeting (ERCC) takes place. Key short term reputational risks are identified in the crisis meeting and the treatment plans to address the risk as well.  
•A pilot nerve centre has been set up. This looks at customer risk with regard to reputation on a daily basis. The results are discussed at EXCO and business strategies are developed based on the results.  
•A parliamentary office has been set up. The office monitors what happens at parliament, for example the new bills that are going to come out. The parliamentary questions are studied at the steercom meetings and strategies are put in place for the short term.  
•Emergency responses processes have been documented and distributed in ABC. Simulation training is conducted as on how to respond to emergencies.  
•The Corporate care check is where ABC would go to the market and test to see how caring ABC is perceived to be. The results would be presented in the form of an overall score. A horizontal strategy has been put in place to help with the initiatives and is currently in the third phase. Progress is monitored by the Delivery Unit. A business report is prepared by the Corporate affairs department. The report approved by EXCO and the Board.  
•CAD Risk team report on treatment plans. | •Management review of reputational strategy.  
•CAD risk team monitoring of treatment plans delivery (risk management and reporting)  
•Strengthening of media interventions and stakeholder engagement strategy.  
•Internal audit review on the communication processes to be provided in FY2014.  
•Emergency communication preparedness.  
•Weekly crisis meetings to establish key short term reputational risks and treatment.  
•Internationally proven tool to measure and manage ABC’s reputation (RepTrak). (The reporting of the ABC Reputation Score is received annually at the beginning of the year from Reputation Institute). This is reported  
•Monthly monitoring of the media rating. Trend analysis reported monthly MANCO meeting. (Analyses is done by an external company called Media Tenor, This is reported to GM Media Specialist and the GM Internal Communication and messaging, CAD MANCO and EXCO)  
•Corporate care check provided by the external service provider (Corporate Social Market Research). |
## Activity (cont.1)

<table>
<thead>
<tr>
<th>Line 1</th>
<th>Line 2</th>
<th>Line 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control Self Assessment</td>
<td>Management Review</td>
<td>IRM</td>
</tr>
<tr>
<td></td>
<td>Compliance &amp; Regulatory</td>
<td>Legal</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Internal Audit</td>
</tr>
<tr>
<td></td>
<td></td>
<td>External Audit/Other</td>
</tr>
<tr>
<td>Control Self Assessment</td>
<td>Management Review</td>
<td>IRM</td>
</tr>
<tr>
<td>-------------------------</td>
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<td>-----</td>
</tr>
<tr>
<td>None</td>
<td>Management review of reputational strategy.</td>
<td>CAD risk team monitoring of treatment plans delivery (risk management and reporting)</td>
</tr>
<tr>
<td>Strengthening of media interventions and stakeholder engagement strategy.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emergency communication preparedness.</td>
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</tbody>
</table>

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Questions?