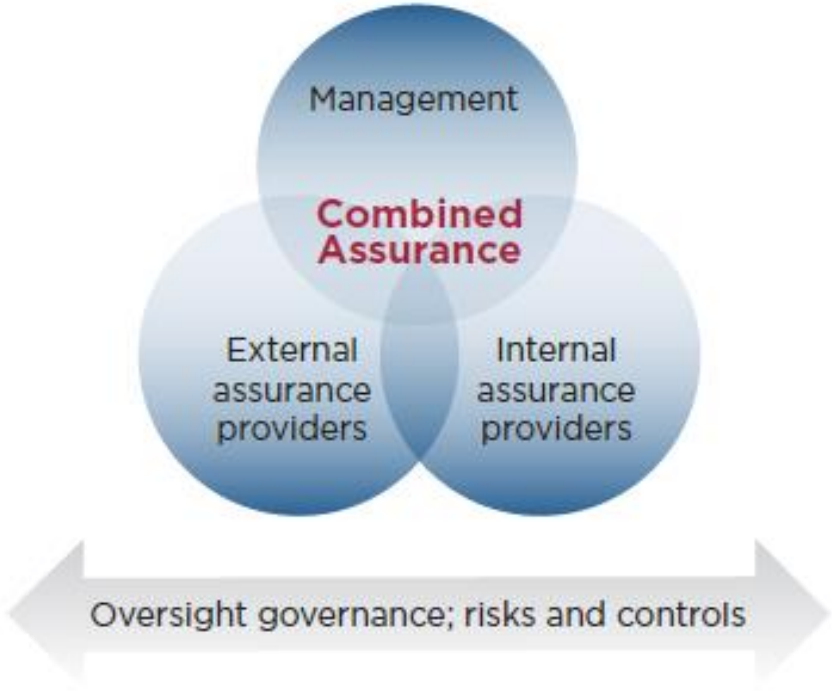
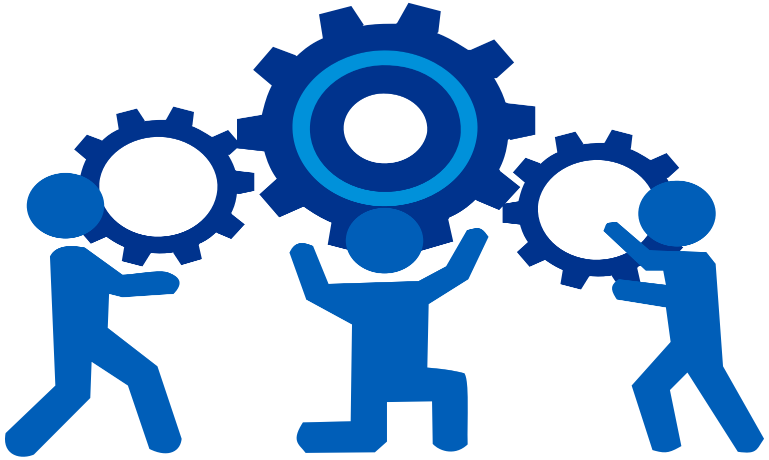
Combined Assurance in today's world of internal audit



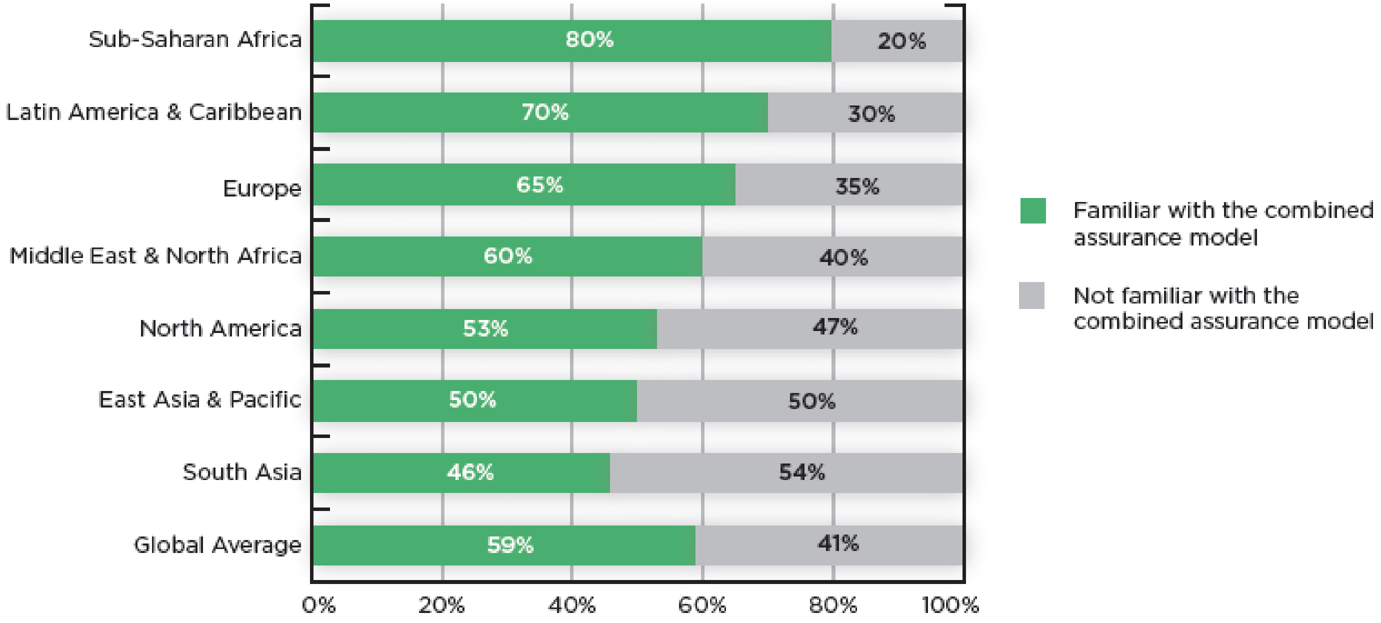
Management
Combined Assurance
External assurance providers
Internal assurance providers
Oversight governance; risks and controls

Huibers, S., CBOK Report *Combined Assurance: One Language, One Voice, One View* (2015). *Source:* adapted from *King Code of Governance for South Africa 2009* (Institute of Directors in Southern Africa) and *Combined Assurance: Case Studies on a Holistic Approach to Organizational Governance* by G. Sarens, Decaux, L., & Lenz, R.

With combined assurance, there will be a number of parties involved in providing assurance, and their activities require coordination and alignment.



Familiarity with Combined Assurance



▲

59%

Familiar with the combined assurance model

▼

41%

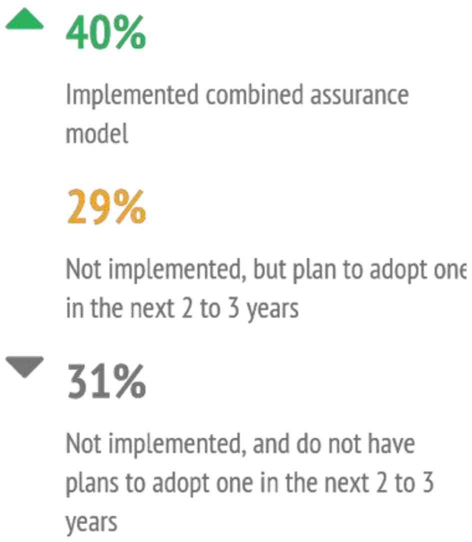
Not familiar with the combined assurance model

Huibers, S., CBOK Report *Combined Assurance: One Language, One Voice, One View* (2015).

- Globally, 59% of respondents were aware of combined assurance, although there were large differences between regions.

Implementation of Combined Assurance

Knowledge and implementation of the combined assurance concept is not yet widespread.



▲ 40%

Implemented combined assurance model

29%

Not implemented, but plan to adopt one in the next 2 to 3 years

▼ 31%

Not implemented, and do not have plans to adopt one in the next 2 to 3 years

Huibers, S., CBOK Report *Combined Assurance: One Language, One Voice, One View* (2015). .

- The lowest level of implementation is in North America at 25% and the highest is in South Asia and Sub-Saharan Africa (around 50%).

What is combined assurance?

Combined assurance is defined as...

“integrating and aligning assurance processes in an organisation to maximise risk and governance oversight and control efficiencies, and optimise overall assurance to the audit and risk committee, considering the company’s risk appetite". *King III report*

“the alignment of governance, risk and assurance activities – linking them with company strategy and business model – to better co-ordinate efforts and reporting with the aim of improving business performance and resilience”

What is combined assurance?

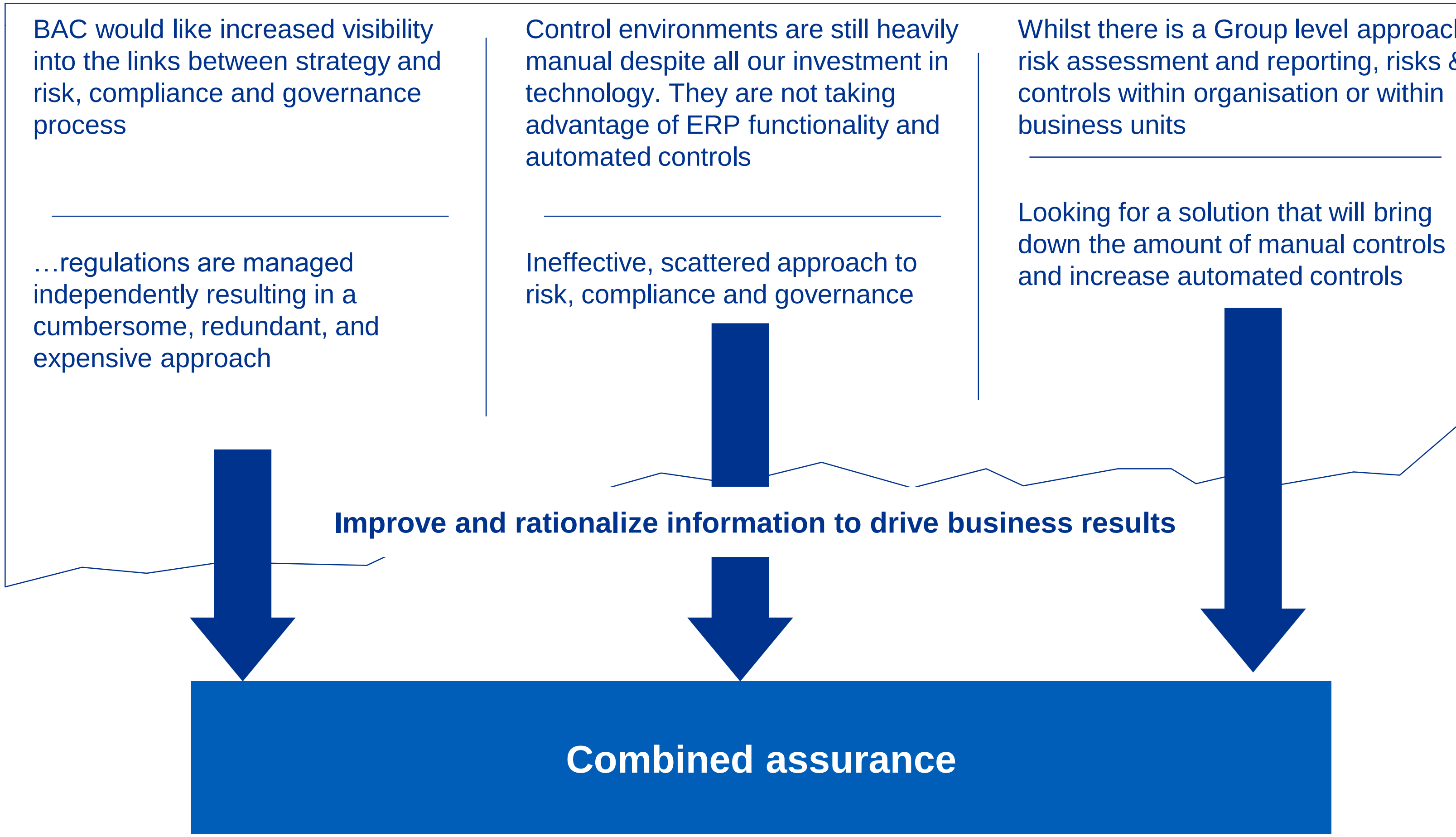
What it ***is***…

- Starts with understanding strategic objectives, mission and business model
- Involves co-ordination of assurance efforts and reporting across various oversight functions (e.g., Group Finance, Treasury and Management Risk functions, Group Risk, Internal Audit, External Audit)
- Encompasses people, processes and technology considerations
- Promotes better leveraging of the "Three Lines of Defence" model
- Converges risk, control and compliance data
- Requires effective change management

What is it ***NOT***…

- Just a new reporting approach
- Just a technology solution
- An elimination of the need for existing assurance functions (e.g., Compliance/risk functions within Bus (e.g. Marketing trading risk management, Internal Audit, Group Risk)
- An additional bureaucratic layer that adds additional paperwork/administrative input
- Just a conceptual framework – **it must be practical**
- Achievable without buy-in from all key risk, control and compliance functions

What are we seeing?



BAC would like increased visibility into the links between strategy and risk, compliance and governance process

…regulations are managed independently resulting in a cumbersome, redundant, and expensive approach

Control environments are still heavily manual despite all our investment in technology. They are not taking advantage of ERP functionality and automated controls

Ineffective, scattered approach to risk, compliance and governance

Whilst there is a Group level approach to risk assessment and reporting, risks & controls within organisation or within business units

Looking for a solution that will bring down the amount of manual controls and increase automated controls

Improve and rationalize information to drive business results

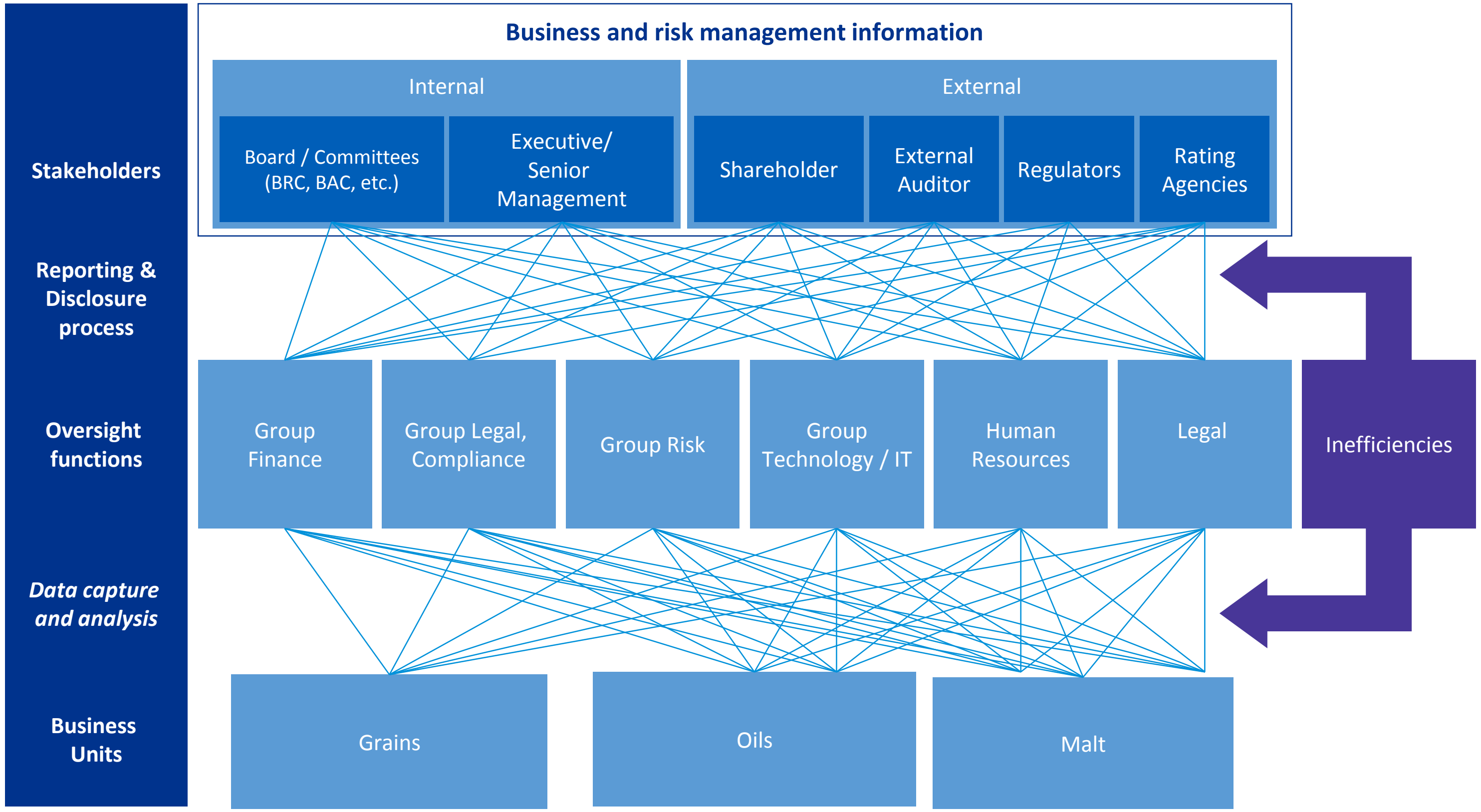
Combined assurance

What are we seeing (continued)

Boards of directors are tasked with securing stability and growth for shareholders in the challenging context of demonstrating sound governance and control, compliance with increasingly complex regulatory requirements, and proper engagement with and accountability to stakeholders.

They need to:

- Triangulate current strategy, risk, compliance, and performance
- Be forward looking, have access to horizon scanning of upcoming risks and challenges
- Establish risk appetite across all facets of risk (including compliance risks)
- Be assured and action focused
  - Risk escalation processes are in place and "work"
  - Actions identified to reduce risk are followed up and implemented



Stakeholders

Reporting & Disclosure process

Oversight functions

Data capture and analysis

Business Units

Business and risk management information

Internal

Board / Committees (BRC, BAC, etc.)

Executive/ Senior Management

External

Shareholder

External Auditor

Regulators

Rating Agencies

Group Finance

Group Legal, Compliance

Group Risk

Group Technology / IT

Human Resources

Legal

Inefficiencies

Grains

Oils

Malt

Uncoordinated: The impact on the business

COSO Review (annual review, facilitated by Group Finance)

Group Risk – Strategic and Operational Risk Management Process

Compliance monitoring activities performed by 1st line

Board has lack of clarity around current assurance activities across key business areas, risks and three lines of defence

Reporting from various first, second and third line assurance functions into various Executive and Board forums

Request for Internal Audit Testing Data

Periodic requests by Regulators

Uncoordinated: The impact on decision-making

Business Leaders largely rely on fragmented reporting that provides inadequate and untimely insights to make key business decisions.

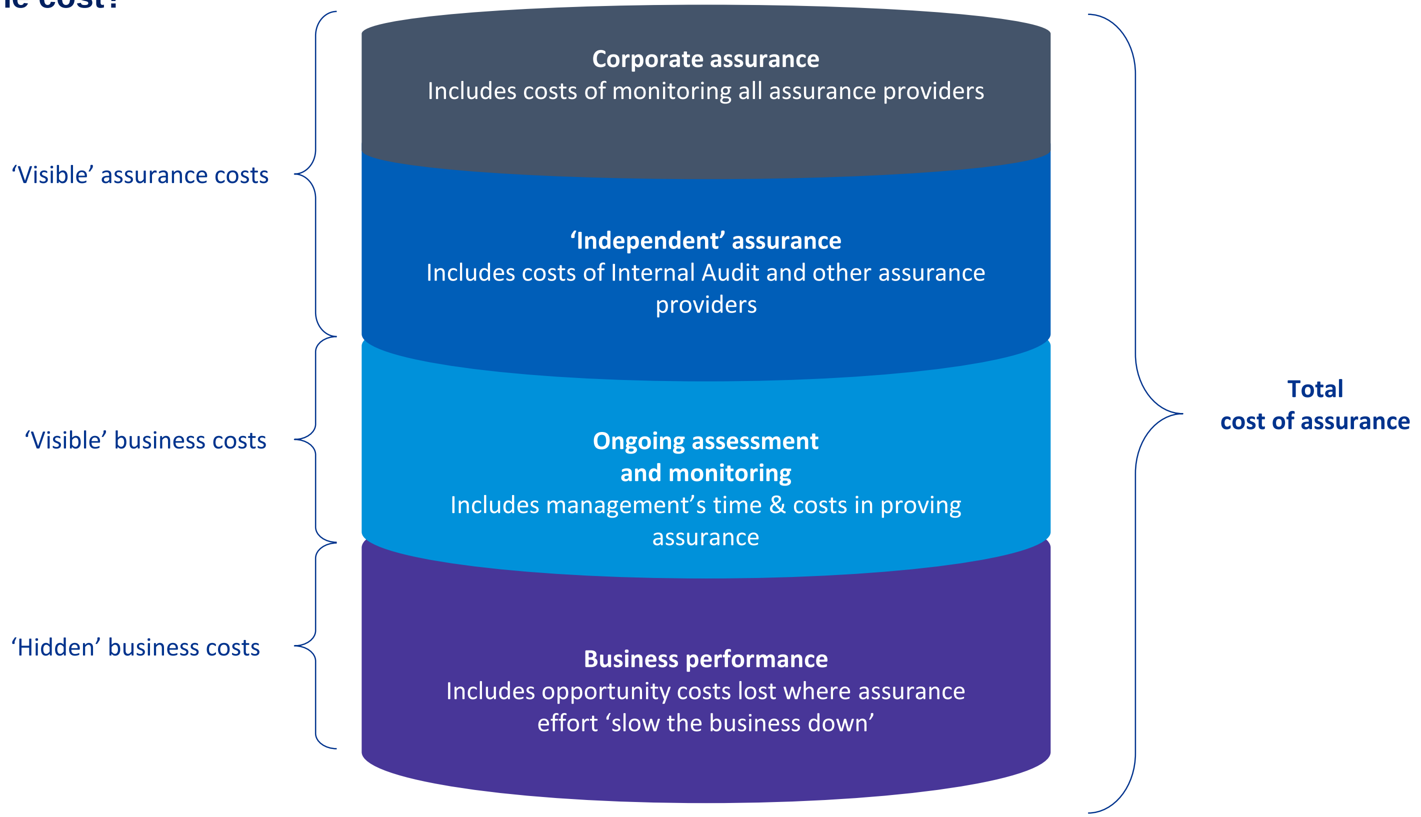
Common combined reporting challenges include:

- Lack of common language/ taxonomy (e.g., risk rating scales)
- Disconnected reporting methodologies and calendars – more ad hoc than systematic reporting
- Silos – lack of data sharing between functions
- Use of incompatible reporting tools/technologies
- Business vs. compliance vs. audit view

	ERM	Audit	Compliance	SOX	Info Sec
Blue – 1	Insignificant		Process Improvement		
Green – 2	Minor	Low	Non-Reportable		Low
Yellow – 3	Moderate	Medium	Reportable (to Division)	Control Deficiency	Medium
Orange – 4	Major	High	Reportable (to Executive)	Significant Deficiency	High
Red – 5	Critical		Reportable (to Board)	Material Weakness	Critical

Uncoordinated: The impact on assurance cost

Do you consider all the components that add up to the total cost of assurance? What impact can better combined assurance have on reducing the cost?



Corporate assurance
Includes costs of monitoring all assurance providers

'Independent' assurance
Includes costs of Internal Audit and other assurance providers

Ongoing assessment and monitoring
Includes management's time & costs in proving assurance

Business performance
Includes opportunity costs lost where assurance effort 'slow the business down'

'Visible' assurance costs

'Visible' business costs

'Hidden' business costs

Total cost of assurance

Drivers

Goal

Leaner ✓
*Insights in **Cost of Assurance***

Safer ✓
***Re-balance** Lines of Defence*

Better ✓
***Increased Quality** of information and **Efficiency of** Assurance Activities*

A number of key enterprise challenges (some examples provided below) are compelling businesses to transform their various assurance functions – acting as key drivers to move towards integrated assurance that is leaner, safer and better.

Key enterprise challenges

Growth pressures

Pressure to sustain growth & profitability increases risks related to product innovation, operating model transformations (i.e., shared services, use of technology, outsourcing etc.), and new markets

Regulatory compliance

Risk that regulations and their compliance implications may not have been considered in new countries, new verticals or while developing new service offerings (innovation – related)

Risk content

Board/Leadership is focusing on emerging risks and questioning completeness/quality of risk content

Talent management

Increased risk of inadequate talent management due to pace of change, market conditions and organisational change

Right sizing

Redundancy and/or overlap in risk management and assurance given lack of clarity in roles and responsibilities (convergence, single view of risk, assurance mapping)

Need for integrated assurance

Governance

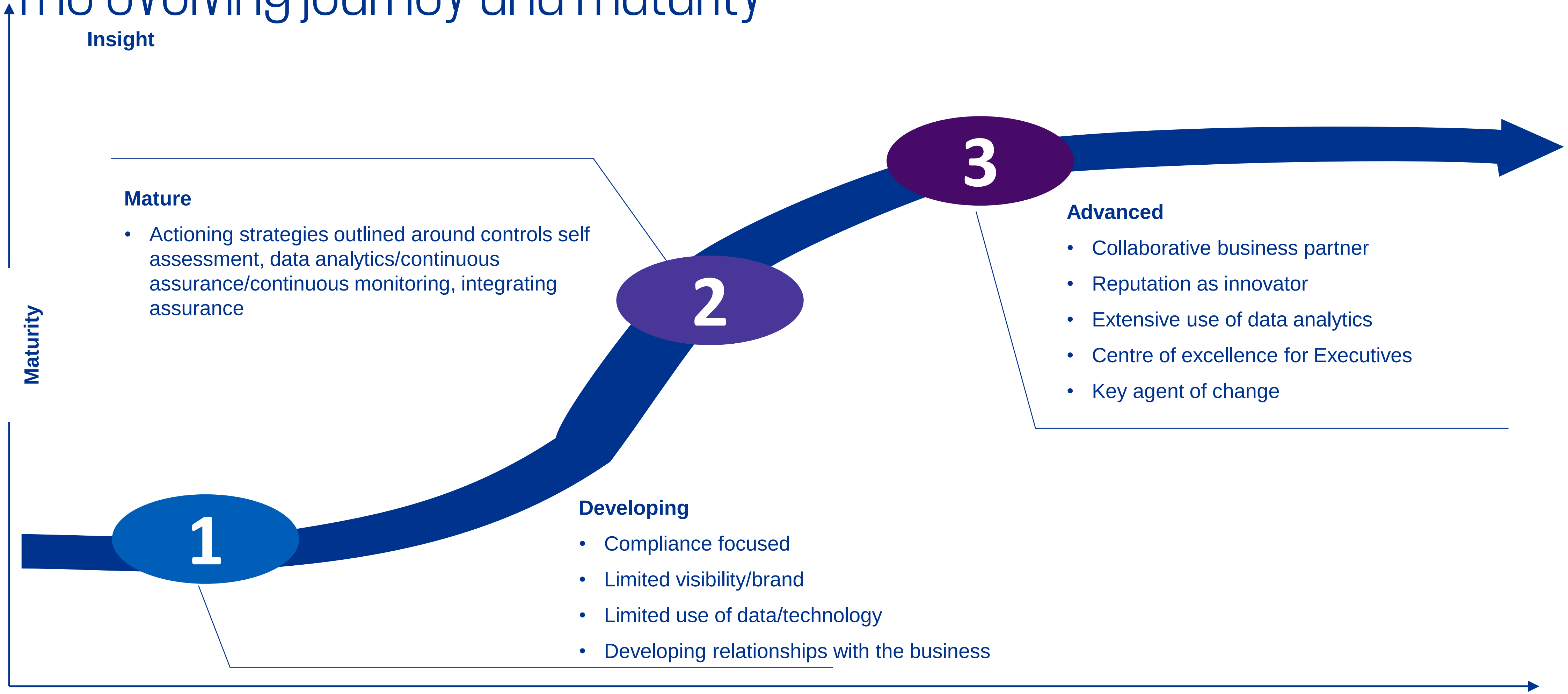
Strategy

- Improved linkage to strategy
- Better alignment to business
- Competitive advantage

Performance

- Enhanced regulatory compliance
- Reduction of costs
- Improved risk intelligence
- Greater transparency
- Alignment through GRC tools

The evolving journey and maturity



Mature

- Actioning strategies outlined around controls self assessment, data analytics/continuous assurance/continuous monitoring, integrating assurance

Advanced

- Collaborative business partner
- Reputation as innovator
- Extensive use of data analytics
- Centre of excellence for Executives
- Key agent of change

Developing

- Compliance focused
- Limited visibility/brand
- Limited use of data/technology
- Developing relationships with the business

Main components to success

Shared integrated assurance vision and strategy

Three lines of defence/ governance

Common language and shared methodology

Co-ordination of efforts and reporting

Change management

Main components to success (continued)

Shared combined assurance vision and strategy

In order to successfully implement a sustainable Combined Assurance program within an organisation, it should be strategically focused and aligned with the organisation's mission, strategy, values and business model.

Key stakeholder involvement and buy-in to the combined Assurance vision and strategy is a critical factor for success. Without upfront alignment on the future-state vision, the program runs a high risk of failure.

Key steps:

- Define the overall vision, objectives and guiding principles for combined Assurance. When developing the vision/objectives, potential questions to consider include but are not limited to:
  - ➢ What does success look like? (e.g., alignment of x assurance processes, x% reduction of total cost of assurance)
  - ➢ What is the appropriate scope of the framework? (e.g., all assurance activities vs. selection)
  - ➢ What is the desired timing for achieving the stated vision?
- Identify all stakeholders
- Align expectations and understanding of mandate
- Perform inventory of current assurance practices and risk processes
- Identify future state reporting needs
- Define desired future-state and strategy to achieve it (e.g., project plan and detailed roadmap)

Main components to success (continued)

Three lines of defence/governance

Combined assurance promotes better leveraging of the “Three Lines of defence” model to give greater line of sight and clarity of accountability through the business for management and the Board.

Tools like assurance maps allows management and the Board to better see who is providing assurance on what, the main mitigation plans across businesses and any gaps that need to be addressed.

Key steps:

- Define oversight and monitoring responsibilities of the following roles:
  - ➢ Board oversight committee
  - ➢ Executive management
  - ➢ Management steering committee
- Assign the responsibilities for coordinating program implementation efforts to the appropriate person (e.g., CRO)
- Develop assurance map (e.g., by key risk)
- Develop a framework for assigning responsibilities across the three lines of defence
- At a key risk/process/account/system level using a matrix format, assign current-state roles and responsibilities
- Assess appropriateness and redirect resources where need to ensure that activities are focused on those areas with the greatest potential benefit for the business
- Develop and implement future-state design governance structure (long-term) and document the Combined Assurance operating structure with roles and responsibilities

Main components to success (continued)

Common language and shared methodology

Combined Assurance will not be possible without the harmonization of the language and methodology used.

Updated tools and templates can help enforce the use of common language and help guide process.

The use of common language and a share methodology should be guiding principles when integrating assurance activities.

Key steps:

- Standardize language and foundational elements across functions. This might include:
  - ➢ Definitions for key terms (e.g., risk, issue, mitigating activity)
  - ➢ Risk ranking criteria
  - ➢ Risk categories
  - ➢ Control types
  - ➢ Issue categories
- Refresh tools and templates to drive standardization across functions (e.g., update risk reporting dashboard with standardized language)
- Develop a methodology that provides a set of guidelines on the process to follow when performing key activities. For example:
  - ➢ How to identify key controls
  - ➢ Guidance on testing approach to use
  - ➢ Sampling guidance
  - ➢ Testing and documentation processes and templates
  - ➢ Guidance on interpreting the test results and reporting

Main components to success (continued)

Co-ordination of efforts and reporting

The scope, content and timing of the various activities across functions that perform them should be understood and strategically sequenced to help ensure information is shared and leveraged appropriately.

Consideration should be given to using the same technology solution or at a minimum creating a central repository or for sharing of data and results.

Key steps:

- Establish a Master Calendar Plan taking into account critical paths and minimum requirements. The Master Calendar Plan helps coordinate assurance function calendars to optimize and sequence activities and business touch points
- Create a central repository for shared access to data and results
- Perform a cross-functional coordinated risk assessment
- Expand risk consideration into audit and compliance planning
- Identify risk management gaps/duplication
- Leverage all available testing resources for coordinated control testing
- Enable process through technology
- Continuous evaluation of the effectiveness of the process and tools being used

Main components to success (continued)

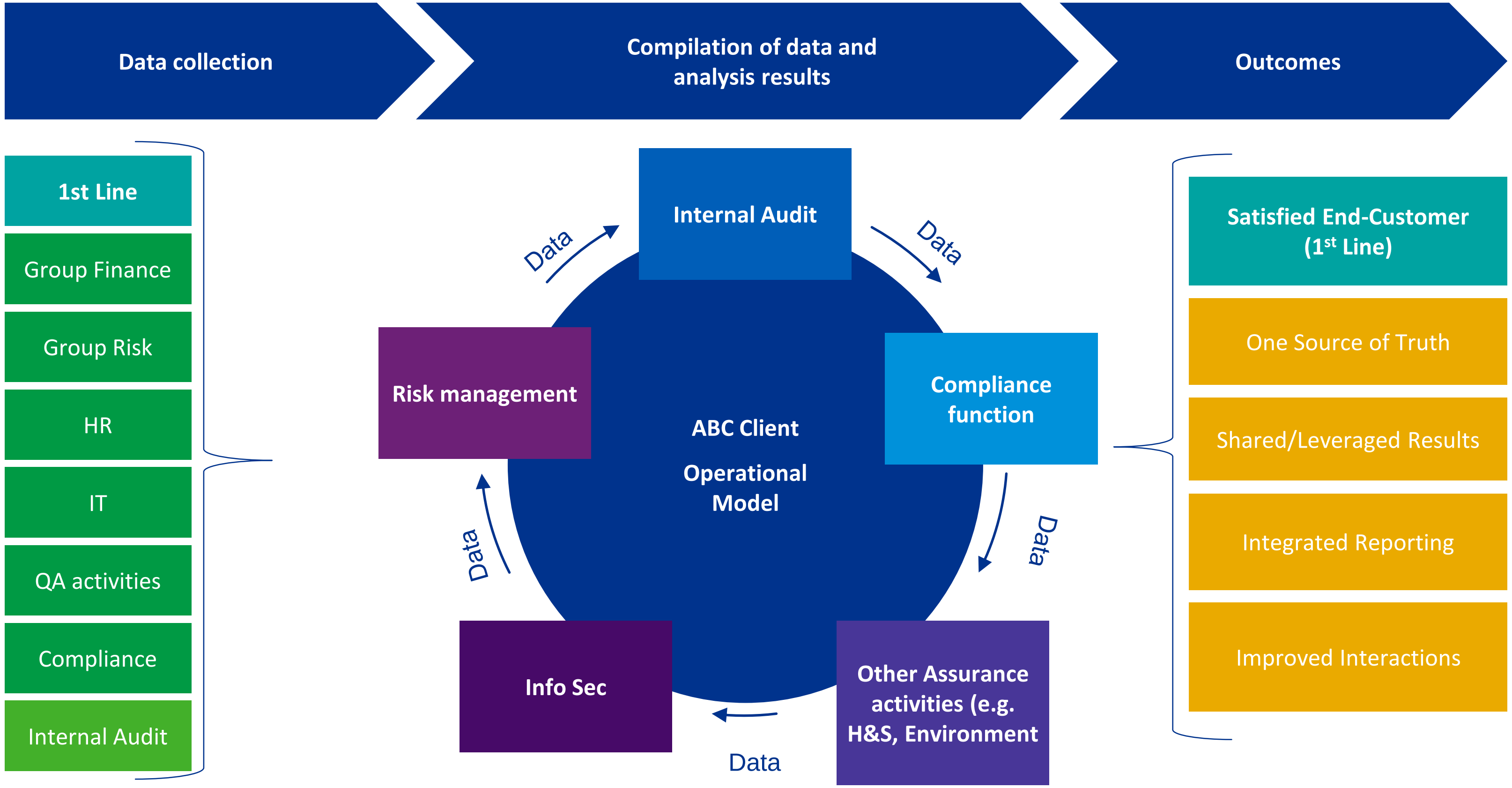
Change management

To transform to an enterprise-wide combined Assurance model, an organisation will need to take action to help its leaders, its people and stakeholders impacted by the changes move along the Commitment Curve to the desired future state whereby ultimately, they become advocates and owners of the new model.

Key steps:

- Perform a high level stakeholder & key influencer analysis
- Continuously identify and take action to align stakeholders on the overall Combined Assurance future state vision to move them up the Change Curve towards fully supporting the initiative. Activities might include:
- - Formal communication of the importance of and support for the program by Executive Management and relevant governance bodies
- - Formal education and awareness sessions for key stakeholders
- - A forum to allow input/feedback from stakeholders (e.g., suggestions to further enhance the program)

Example outcome illustration



Data collection

Compilation of data and analysis results

Outcomes

1st Line

Group Finance

Group Risk

HR

IT

QA activities

Compliance

Internal Audit

Internal Audit

Compliance function

Other Assurance activities (e.g. H&S, Environment

Info Sec

Risk management

ABC Client

Operational Model

Satisfied End-Customer (1st Line)

One Source of Truth

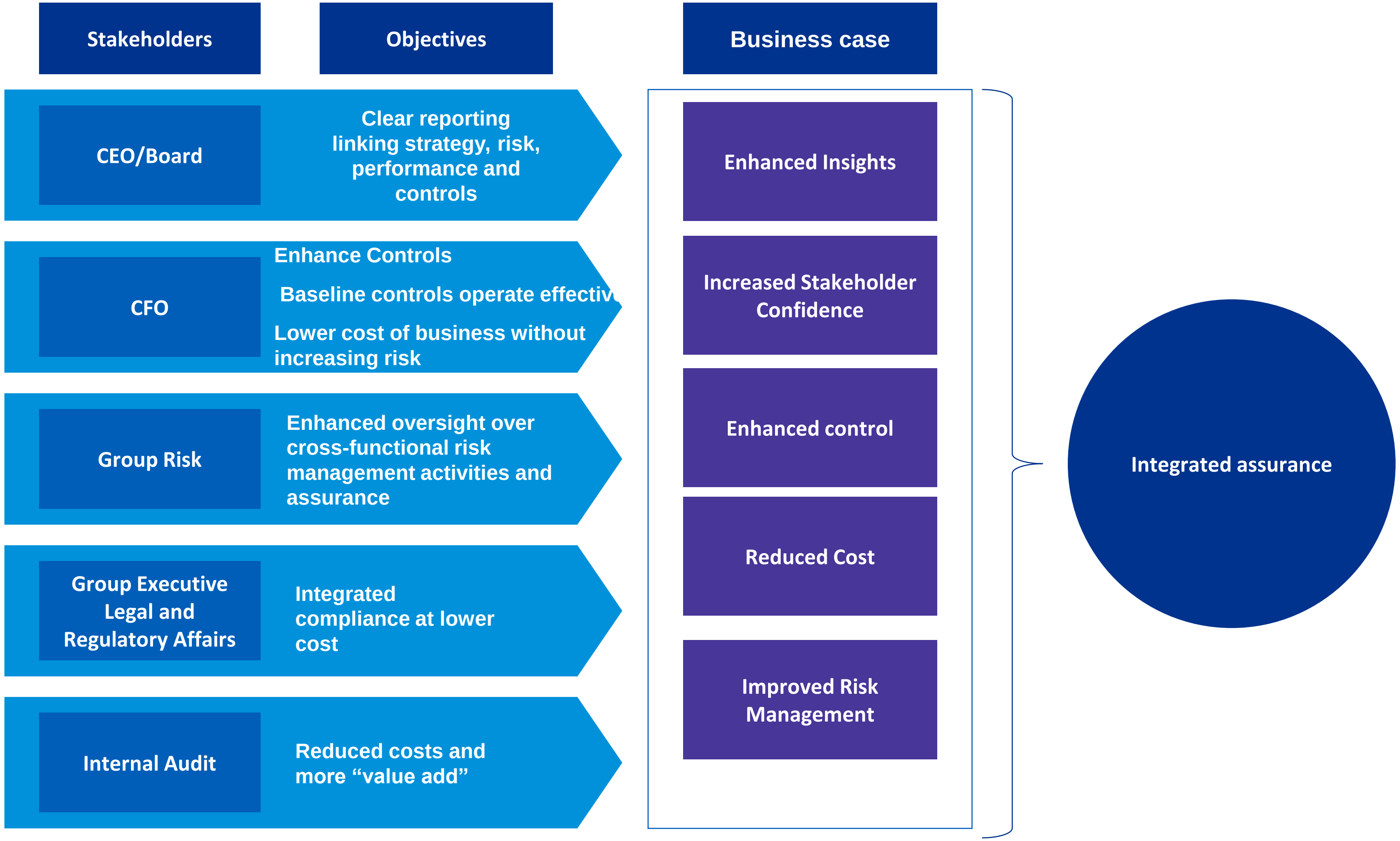
Shared/Leveraged Results

Integrated Reporting

Improved Interactions

Risks, Processes & Controls

Benefits to combined assurance for ABC Client



Stakeholders

Objectives

Business case

CEO/Board

Clear reporting linking strategy, risk, performance and controls

CFO

Enhance Controls

Baseline controls operate effectiv

Lower cost of business without increasing risk

Group Risk

Enhanced oversight over cross-functional risk management activities and assurance

Group Executive Legal and Regulatory Affairs

Integrated compliance at lower cost

Internal Audit

Reduced costs and more "value add"

Enhanced Insights

Increased Stakeholder Confidence

Enhanced control

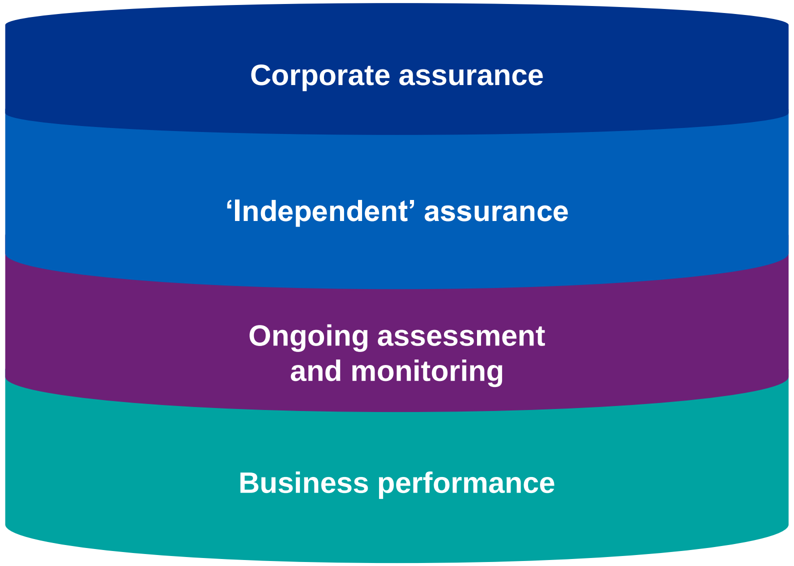
Reduced Cost

Improved Risk Management

Integrated assurance

More transparency, less cost

Better understanding and management of the **total cost of assurance**



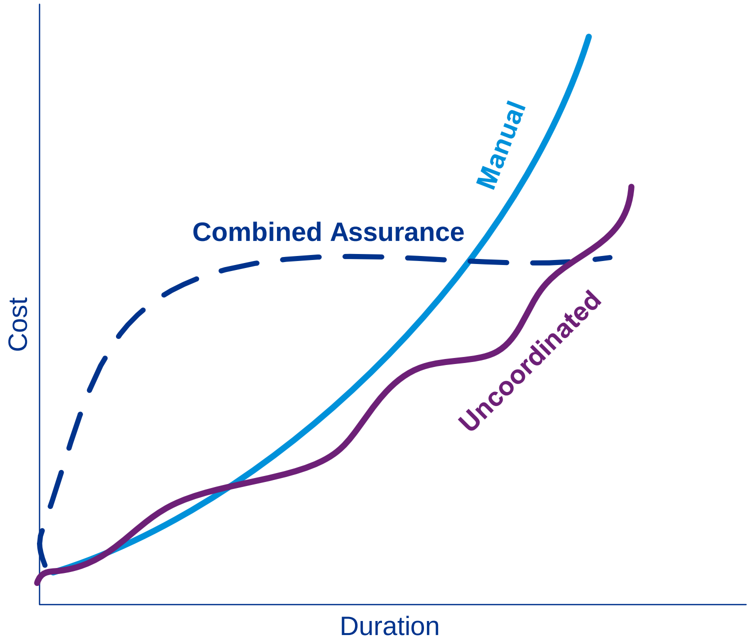
Corporate assurance

‘Independent’ assurance

Ongoing assessment and monitoring

Business performance

An **integrated** approach may have a high initial spend, but flattens over time **decreasing costs** and **improving efficiencies!**

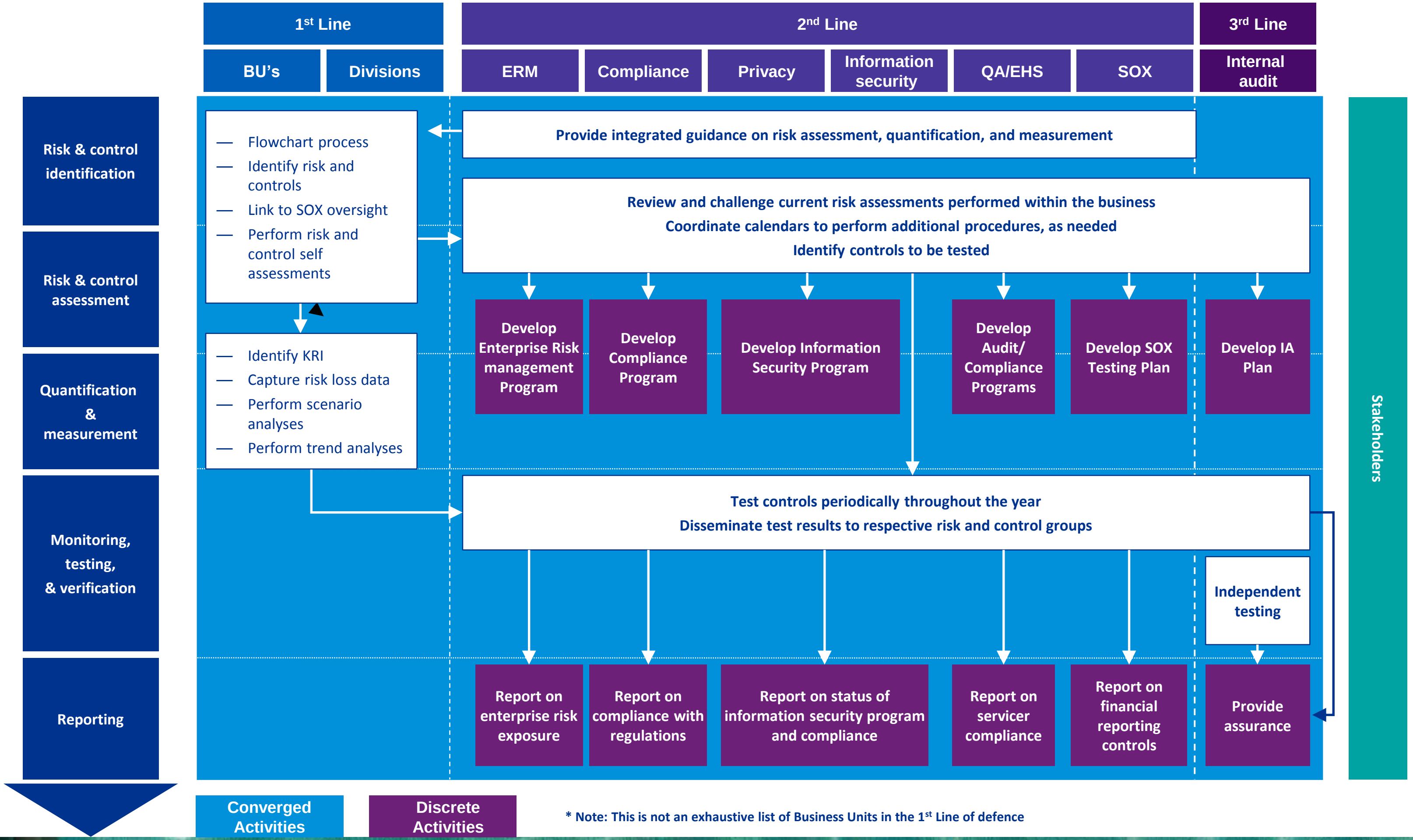


Example assurance map

				Business type					Region			
	Business processes	Corporate	Shared service center	Consumer packaging	Paper	Industrial packaging	Pulp	Recycling	North America	South America	Europe, Middle East, Africa	Asia
Finance	Financial Reporting	C, E	C						C, D		C, D	C, D
	Budgeting and Forecasting	C							C		C	C
	Tax	C, E							C		C	C
	Liquidity and Credit	C										
Procure to pay	Vendor Masterfile Maintenance								E		E	
	Vendor Selection								E		E	
	Payable Approval	E	C									
	Payable Processing	E	C									
	Accruals	E		E	E	E	E		C	C	C	C
Operations	Sales								B, D, E		B, D, E	B, D, E
	Manufacturing			F	F	F	F	F	F	F	F	F
	Product Development			E		E						
Compliance	Legal											
	Regulatory								B, E	B	B, E	B
	Corporate Governance	C, E	C, E						B, C	B, C	B, C	B, C
IT	Access Control	A, E	A, E						E		E	E
	Asset Management	D							D, E		D, E	D, E
	Change Management	A, E	A, E						C		C	C
HR	Employee Masterfile Maintenance		E						E		E	E
	Compensation and Benefits		E						E		E	E
	Training											

Legend			
SSAE 16*	A	Health and Safety	F
Compliance (FCPA)	B	Not Tested/Immaterial	
SOX	C	1st Line of defence	🟦
Business Continuity	D	2nd Line of defence	🟪
Internal Audit	E	3rd Line of defence	🟩

Example outcome - Three lines of defence



1st Line: BU's, Divisions

2nd Line: ERM, Compliance, Privacy, Information security, QA/EHS, SOX

3rd Line: Internal audit

Risk & control identification

Risk & control assessment

- Flowchart process
- Identify risk and controls
- Link to SOX oversight
- Perform risk and control self assessments

Provide integrated guidance on risk assessment, quantification, and measurement

Review and challenge current risk assessments performed within the business
Coordinate calendars to perform additional procedures, as needed
Identify controls to be tested

Develop Enterprise Risk management Program

Develop Compliance Program

Develop Information Security Program

Develop Audit/ Compliance Programs

Develop SOX Testing Plan

Develop IA Plan

Quantification & measurement

- Identify KRI
- Capture risk loss data
- Perform scenario analyses
- Perform trend analyses

Monitoring, testing, & verification

Test controls periodically throughout the year
Disseminate test results to respective risk and control groups

Independent testing

Reporting

Report on enterprise risk exposure

Report on compliance with regulations

Report on status of information security program and compliance

Report on servicer compliance

Report on financial reporting controls

Provide assurance

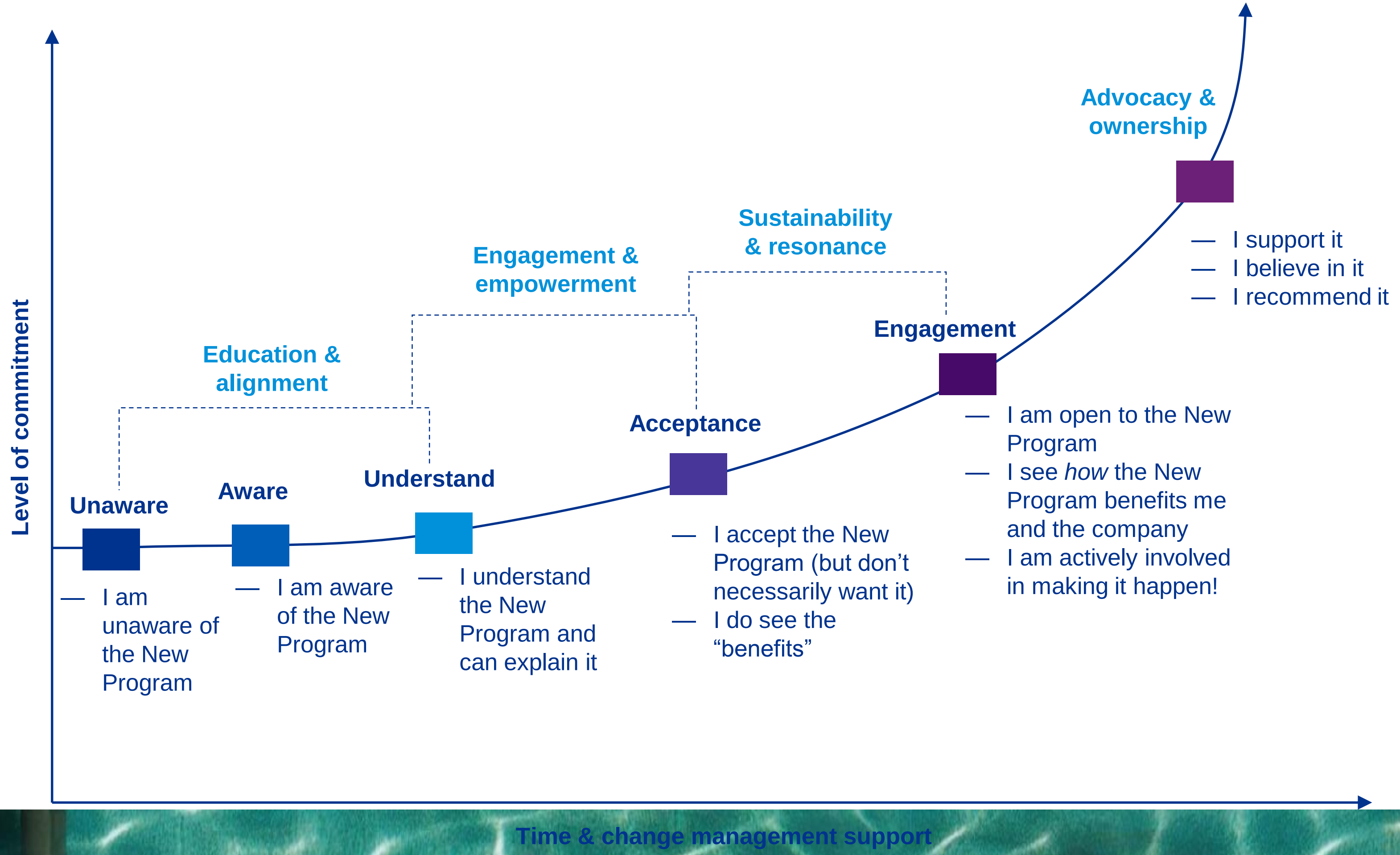
Stakeholders

Converged Activities

Discrete Activities

* Note: This is not an exhaustive list of Business Units in the 1st Line of defence

Change management commitment curve



Level of commitment

Time & change management support

Education & alignment

Engagement & empowerment

Sustainability & resonance

Unaware

- I am unaware of the New Program

Aware

- I am aware of the New Program

Understand

- I understand the New Program and can explain it

Acceptance

- I accept the New Program (but don't necessarily want it)
- I do see the "benefits"

Engagement

- I am open to the New Program
- I see *how* the New Program benefits me and the company
- I am actively involved in making it happen!

Advocacy & ownership

- I support it
- I believe in it
- I recommend it

"When combining assurance, the role of internal audit is key in supporting the board in having effective oversight of the company. Otherwise, it does not work." —Marie-Helene Laimay, CAE, Sanofi, France

Lessons Learnt

- Internal audit has a key role to play in driving implementation
- Buy-in Support is required from the top
- Anticipated value should be articulated up front
- All participants should reach a consensus on taxonomy
- Control assessment and risk ratings should be standardised
- Level of maturity of the different players in the combined assurance field should be identified

- Implementing combined assurance is not something that can be achieved from one day to the next—it should be considered a journey.

IIA Standards Related to Combined Assurance

Standard	Summary
▪ **Standard 1000: Purpose, Authority, and Responsibility**	▪ The purpose, authority and responsibility of internal audit activity must be formally defined in an internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the standards
▪ **Standard 2050: Coordination**	▪ The Chief Audit Executive should share information and coordinate activities with other internal and external providers of assurance and consulting services to ensure proper coverage and minimise duplication of efforts.
▪ **Standard 2060: Reporting to Senior Management and the Board**	▪ The Chief Audit Executive must report periodically to senior management and the Board. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues, and other matters needed or requested by senior management and the Board.
▪ **Standard 2100: Nature of Work**	▪ The internal audit activity must evaluate and contribute to the improvement of governance, risk management and control processes using a systematic and disciplined approach

- The *Standards* clearly supports the philosophy of combined assurance.

Questions

THANK YOU