# Combined assurance: A systematic process

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**ABSTRACT**

There is a clear shift in corporate governance towards understanding and managing the risks that could prevent an organisation from achieving its objectives. This has resulted in enterprise risk management and combined assurance becoming fundamental and integral components of corporate governance. Although enterprise risk management is a well-researched field, limited research is available on the introduction and/or maintenance of combined assurance processes, and how these relate to enterprise risk management. The objectives of the study reported on in this article are twofold. Firstly, it presents the interrelationships between the features of enterprise risk management and the combined assurance processes. Secondly, by conducting a survey of the views of chief audit executives within the private sector it determines how these features were considered and addressed by organisations during the introduction and subsequent maintenance of their organisations' combined assurance processes. The most significant finding is that there appears to be a dependency on the enterprise risk management process as a prerequisite for the implementation of a combined assurance process. Furthermore, significant differences were found to exist between perceptions from respondents from companies that had already implemented combined assurance / enterprise risk management and those respondents from companies that are currently in the process of implementing combined assurance / enterprise risk management.

**Key words**

Corporate governance; combined assurance; enterprise risk management; internal audit; combined assurance features; combined assurance benefits; combined assurance role players

## 1 INTRODUCTION

Corporate governance became a matter of public debate in the early twentieth century (Wells 2010: 1291). In more recent times though, corporate governance has again become a buzz phrase and is receiving far more substantial attention from boards, regulators and various other business stakeholders. Traditional approaches to corporate governance have also been forced to evolve in response to corporate governance failures that have themselves highlighted previously noted areas of concern (Kirkpatrick 2009: 63). Over time there has been a clear shift towards understanding and managing the risks that could prevent an organisation from achieving its objectives (IIA 2012b:1; Brink 2009:9; Marks 2009:23). Enterprise Risk Management (ERM), a process of identifying events that may impact the organisation, and the management of risks so that they are within the enterprise's risk appetite across all business structures, has become a fundamental and integral component of corporate governance (IIA 2012b:1; Brink 2009:9; COSO 2009:4; Marks 2009:23; COSO 2004a:2). Furthermore, boards now have increased responsibilities regarding the oversight of all aspects of risk, and should be obtaining appropriate assurance that key risks are competently managed and mitigated. This has given rise to the concept of combined assurance, the basis of today's corporate governance, which involves various parties that collectively provide assurance that all the significant risks facing the organisation are appropriately mitigated (IoD 2009:52-53) and then integrated with ERM's efforts (Pearl-Kumah, Sare & Bernard 2014:1; IIA 2012b:1; Brink 2009:9; Marks 2009:23).

Causes cited for the 2008 global financial crisis and associated corporate failures relate to poor corporate governance and risk management practices (Kumar & Singh 2013:21; Sarens, Decaux & Lenz 2012:7; Marks 2009:23; Mardjono 2005:272). Countering these has manifest as the development of processes, structures and cultural safeguards that ensure the long-term sustainability of the organisation in the best interest of stakeholders (Fombrun 2006:267). Risk management is a central task and a fundamental component of organisational control and sound corporate governance (IIA 2012b:1; Pirson & Turnbull 2011:459; Brink 2009:9; Marks 2009:23). Furthermore, systems that have been put in place for the monitoring and management of foreseeable risk factors are key features of The Organisation for Economic Co-operation and Development's (OECD) Principles of Corporate Governance (Kirkpatrick 2009:62).

The third King Report on Corporate Governance in South Africa (King III) formally introduced the concept of combined assurance in 2009 (IoD 2009:52). The broad aspects of the concept are not new and are similar to assurance mapping (Hardy 2014; Hodge 2012) and integrated assurance (Beale 2013; Hodge 2012). The formal combined assurance model implemented by an organisation aims to optimise the assurances received from management and from internal and external assurance providers pertaining to the risks impacting on the organisation, and together their combined assurance should be sufficient to satisfy the board / audit committee that the significant risks facing the organisation are being appropriately mitigated (IoD 2009:53). The objectives of ERM and combined assurance are similar in that risks should be appropriately managed or mitigated to ensure that the objectives of the organisation are achieved (COSO 2009:4; IoD 2009:53; COSO 2004a:2). In addition, the internal audit function (IAF) is responsible for providing assurance to the board / audit committee that governance, risk management, control processes (IIA 2013; IoD 2009:81) and combined assurance are effective (IoD 2009:81), and collectively underpinning sound corporate governance.

The objectives of the study reported on in this article are twofold. The first objective is to present the interrelationships between the features of ERM and combined assurance processes. The second objective is to determine how these processes' features have been considered and addressed by organisations during the introduction and subsequent maintenance of their organisations' combined assurance processes. This has been effected by conducting a survey of the views of chief audit executives (CAEs)[1] within the private sector.

Although formal implementation of combined assurance became mandatory from 2010 (IoD 2009), limited research has been performed on the actual processes followed by organisations, either when introducing or subsequently maintaining such processes (Sarens *et al* 2012:75, 117). Anecdotal evidence suggests that some organisations are still grappling with its implementation, while for others implementation has long since been completed and the systems are now being reviewed. Thus, determining the perceptions of CAEs on the challenges encountered while implementing a combined assurance process could provide insights which may be useful for organisations that have not yet completed the implementation of a combined assurance process, or that intend to improve on their existing processes. The Institute of Internal Auditors (IIA), the internal audit industry in general, and other role players (executives, board / audit committee members and risk functions) could also benefit from these findings in that they identify areas where further guidance is needed. And finally, it has been reported that the King Commission will be revising the King III report (Business Day 2014; IoD 2014) and this study could offer first-hand insights into the combined assurance practices currently followed by organisations.

The remainder of the article is structured as follows: the next section gives a literature overview to contextualise the findings of the study. This is followed by a discussion of the features in the ERM process, which are compared with the combined assurance process to identify interrelationships. Thereafter the research method is explained and this is followed by a discussion of the findings of the survey. The article concludes with a presentation of recommendations and the identification of areas for possible future research.

## 2 LITERATURE REVIEW

### 2.1 Nature and evolvement of corporate governance, risk management and combined assurance

Risk management is a corporate governance task which is central to efforts to sustain value creation (Pirson & Turnbull 2011:459). The global financial crisis of 2007/2008, and other recent corporate failures (Enron, World Com, BP, Arthur Andersen, Northern Rock and Cadbury Schweppes - all notorious for the value that was destroyed), have been attributed to various causes ranging from folly, fraud and greed to outright incompetence (Pirson & Turnbull 2011:459). Many of these failures had their origins in poor corporate governance (Kumar & Singh 2013:21; Sarens *et al* 2012:7; Marks 2009:23; Mardjono 2005:272). Inferior and fragile risk management practices, resulting in boards not being aware of underlying risks to their organisation, have also been cited as further major reasons for the financial crisis and recent corporate failures (Kumar & Singh 2013:21; Hopkin 2012:50; Sarens *et al* 2012:7; Marks 2009:23).

Since risk management has come to be regarded as a fundamental component of organisational control and sound corporate governance, the implementation of the concept of ERM has also gained momentum (IIA 2012b:1; Brink 2009:9; Marks 2009:23). ERM tools are required to predict and manage the vast array of risks that could impact on the long-term sustainability of the organisation. Addressing these ensures objectives are achieved, stakeholder needs are considered and governance is improved (Arena, Arnaboldi & Azzone 2011:779; Schanfield & Helming 2008:41; Drew, Kelley & Kendrick 2006:127). ERM is defined by the Committee of Sponsoring Organisations (COSO) as follows (COSO 2009:4; COSO 2004a:2):

> *"Enterprise risk management is a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives".*

In 2009 the King III report formally introduced to South African business the concept and recommended the associated practice of combined assurance (IoD 2009:52). Combined assurance is not a new concept, and agrees in principle with the elements of assurance mapping and integrated assurance. In these latter two processes the key risks of an organisation are mapped (linked) to assurance practices in an effort to ensure that all risks are

adequately covered, and to reduce duplication of effort (Hardy 2014; Beale 2013; Hodge 2012). This is in line with the definition of combined assurance as the process of co-ordinating the efforts of management with those of internal and external assurance providers in order to jointly satisfy the board / audit committee that the significant risks facing the organisation are appropriately addressed / mitigated in order for the organisation to achieve its objectives (Grant Thornton 2012:2; Roos 2011/2012: 32; Finweek 2010:46; KPMG 2010:1; Brink 2009:10; IoD 2009:53).

### 2.2 Role of the IAF

In terms of the definition of internal auditing, the IAF is tasked to "evaluate and improve the effectiveness of risk management, control, and governance processes" (IIA 2013). This is achieved by the IAF being an "independent, objective assurance" activity, and these attributes are widely supported by the literature (Chambers 2014:199; Plant, Coetzee, Fourie & Steyn 2013:67; Soh & Martinov-Bennie 2011:607; Stewart & Subramaniam 2010:330-331). Assurance activities form part of the corporate governance and risk management processes that assist the board in monitoring the business of the organisation, as is required by the stakeholders. These activities contribute to the managing of principal risks in order to achieve objectives, by informing management and the audit committee / board what processes are effective and what are not (KPMG 2012:7; Sarens *et al* 2012:14-15; Deloitte 2011:1; Parkinson 2004:66). Internal audit should provide objective assurance to the board regarding the effectiveness of risk management or ERM (including the risk management processes, evaluation of risks, appropriateness of risk responses, how key risks are managed and risk reporting), to assist an organisation to accomplish its objectives (IIA 2012a:11; De Zwaan, Stewart & Subramaniam 2011:586-588; IIA 2009:3-4, COSO 2004b:104).

The IAF should also be a significant role player in combined assurance (IoD 2009:81). The CAE is already expected to share information with and coordinate activities between internal and external assurance providers, in accordance with the International Professional Practices Framework (Standard 2050 – Coordination) (IIA 2012b:10). The implementation of the combined assurance process could be championed by the IAF; however, this is dependent on capacity, structure and maturity of the function (Grant Thornton 2012:5; Deloitte 2011:2). The board / audit committee should receive assurance from the IAF that the combined assurance process that has been implemented is effective in its efforts to optimise cost efficiencies, and to prevent assurance fatigue and duplication of effort (IoD 2009:81). Furthermore, internal audit has a vested interest in the successful implementation of a combined assurance model due to the vast number of risks an organisation is exposed to, and because they perform the annual internal audit assessment on the effectiveness of the system of internal control and risk management, in line with the requirements of King III (Grant Thornton 2012:4; IIA 2012b:5; Deloitte 2011:3).

### 2.3 Interrelationships between features of an ERM process and the combined assurance process

In an attempt to reach the first objective of this study, the interrelationships between the features of ERM and combined assurance processes are identified in this section. Both ERM and combined assurance are corporate governance mechanisms (IIA 2012b:1; Brink 2009:9; IoD 2009:52; Marks 2009:23), with a shared theoretical foundation in agency theory (Judge 2012:123; Darus & Mohamad 2011:126; Nyberg, Fulmer, Gerhardt & Carpenter 2010:1030; Bonazzi & Islam 2007:7; Adams 1994:8), intended to redirect narrowly defined self-interests into positive organisational outcomes (Westphal & Zajac 2013: 608). And from the perspective of stakeholder theory (Hasnas 2013:52; Garvare & Johansson 2010:737; Mardjono 2005:272; Attas 2004:315-316), both mechanisms are intended to maintain a balance between the various stakeholders' sometimes conflicting need for and definitions of sustainability (Mainardes, Alves & Raposo 2011:227-228; Garvare & Johansson 2010:737; Alpasan, Green & Mitroff 2009:43).

ERM and combined assurance are processes which focus on risks, and both aim to provide reasonable assurance regarding the achievement of entity objectives (IoD 2009:53; COSO 2004a:2). The risk management philosophy includes understanding the risk appetite of the significant stakeholders of the organisation (Walker & Shenkir 2008; Ballou & Heitger 2005:5-6). For this purpose an ERM process is used, operating on a strategic level that encompasses the whole organisation, in order to ensure that reasonable assurance can be provided that an organisation is achieving its goals through the identification, assessment and management of risks (Paape & Specklé 2012:1; Arena *et al* 2011:659). In addition to this, a combined assurance process aims to optimise assurance with coverage of the organisation's risks being obtained from management, and internal and external assurance providers (Deloitte 2011:1; KPMG 2010:1; PWC 2010:4; IoD 2009:53).

An organisation could benefit by introducing an ERM process, supported by a combined assurance process, as these will improve compliance and corporate governance. The benefits of ERM, according to the literature (Fadun 2013:74; IIA 2009:2-3; Frazer, Schoening-Thiessen & Simkins 2008:77; Schanfield & Helming 2008:42-43) include: more effective decision-making, improved likelihood of achieving objectives, better understanding and management of risk, reduced risk exposure (thus fewer surprises), more effective business processes, operations that are more efficient and profitable, and the establishment of a risk-aware business culture. When ERM is employed in conjunction with a combined assurance process that coordinates assurance efforts (by focusing on key risk exposures, reducing assurance fatigue, and identifying areas for improvement and assurance gaps for which corrective or remedial actions could be tracked and prioritised), a comprehensive view of the organisation's risk exposures (and how these risks are being managed)

is generated (EY 2013:2; Grant Thornton 2012:4; Deloitte 2011:4; Roos 2011/2012:32; PWC 2010:4; Brink 2009:10; IoD 2009:81). This enables the organisation to reduce assurance costs by limiting duplication of effort, while directors and stakeholders are nevertheless still provided with essential comfort that key risks are being adequately addressed (EY 2013:2; Grant Thornton 2012:4; Deloitte 2011:4; Roos 2011/2012:32; PWC 2010:4; Brink 2009:10; IoD 2009:81).

The organisation must identify its objectives and determine related strategies before possible events can be identified that could impact the achievement of these objectives (Walker & Shenkir 2008; Ballou & Heitger 2005:7; Thomson Reuters, n.d.:2). The objectives should be aligned to the organisation's mission, and should recognise its risk appetite (Ballou & Heitger 2005:7; Thomson Reuters, n.d.:2). Through an ERM process an organisation is able to identify, assess and manage risks that could impact the organisation's objectives (COSO 2009:4; COSO 2004a:2). Once the organisation's objectives have been established, possible internal and external events (both risks and opportunities) that could impact the achievement of objectives should be identified (Arena *et al* 2011:779; Thomson Reuters n.d.:2). The identified events should be prioritised in terms of significance, frequency of likely occurrence and the impact of time on the event (Arena *et al* 2011:780; Schanfield & Helming 2008:43; Thomson Reuters n.d.:5). In addition, a clear understanding should be obtained of the organisation's risk appetite, the maturity of its risk assessment process, its business objectives, value drivers and key risks, and whether its financial and non-financial risks (operational, regulatory and strategic) have been considered (EY 2013:8; Deloitte 2011:2; KPMG 2010:[1]). The successful implementation of a combined assurance process requires a thorough understanding of the organisation's business objectives, risk appetite, key processes, and its significant risks and their controls; as previously noted, these are features of an ERM process. Therefore, there should be an ERM process in place before a combined assurance process is implemented, thus demonstrating combined assurance's dependency on the ERM process. This dependency on the ERM process represents a challenge for the implementation of a combined assurance model, should ERM not yet have been implemented or still be in an immature state.

Both processes require the board, audit committee, management and internal audit to be role players (Grant Thornton 2012:3,5; Sarens *et al* 2012:26-29; Deloitte 2011:1; Muller 2011; Brink 2009:9; IoD 2009:52-53,65; Fraser & Henry 2007:405,407; COSO 2004b:95-101,103; Sobel & Reding 2004:30-32; Nkonki n.d.:2). Management is accountable to the board for all matters pertaining to risk, and specifically for risk assessments, risk responses and monitoring of risk (Sarens *et al* 2012:29; IoD 2009:65). The organisation's internal assurance providers (internal audit, risk management, compliance, forensics, legal, and health and safety departments) and external assurance providers (external auditors, independent actuaries, external consultants, sustainability and environmental experts, and Organisation for Standardisation (ISO) assessors) provide assurance over the identified risks (Sarens *et al* 2012:28; Deloitte 2011:1; IoD 2009:53). Internal audit (refer to section 2.2), as key assurance provider on risk management processes (the evaluation of risks, management of key risks and reporting thereof), plays a pivotal role in the ERM and the combined assurance processes.

Similar techniques are used by the IAF in both processes, due to their interdependency, and both processes could hold cost benefits (Arena *et al* 2011:780; Schanfield & Helming 2008:43-44; Walker & Shenkir 2008; Ballou & Heitger 2005:8). Combined assurance training should be conducted to ensure that key role players are on board; this is the equivalent of establishing a risk culture that institutionalises the risk awareness/mitigation process in terms of ERM (EY 2013:9; Schanfield & Helming 2008:44; Ballou & Heitger 2005:5-6).

A systematic process should be implemented whereby the opportunities for combined assurance are identified, responsibilities are assigned, assurance providers identified and actual or potential assurance is mapped to strategic, key operational and business unit level processes (EY 2013:8; Deloitte 2011:1; KPMG 2010:1; PWC 2010:4,7; Nkonki n.d.:3). This establishes the assurance universe - what is being done and for what reasons (EY 2013:8; PWC 2010:6). The actual assurances received should be mapped to the organisation's risks (EY 2013:8; PWC 2010:6). Assurance mapping in combined assurance is similar to performing a cost benefit analysis for treatment plans in an ERM process, ensuring that the appropriate assurance provider is providing assurance over the most significant risks, which eliminates or reduces duplication, assurance fatigue and assurance gaps (EY 2013:9; PWC 2010:10). A remediation plan (as part of the systematic process), should be developed and implemented to address duplication and assurance gaps (EY 2013:9; KPMG 2010:1). This is similar to ERM's policies and procedures that ensure risk treatment plans are implemented (Schanfield & Helming 2008:44; Ballou & Heitger 2005:8).

In line with the implementation of an ERM process, a combined assurance process should also inform the appropriate parties on how risks are managed, as well as explaining the assurances received regarding mitigation of significant risks. Both the combined assurance and the ERM processes should be continuously monitored and enhanced to ensure they remain current, continue to add value and evolve with the organisation and its environment (EY 2013:9; Arena *et al* 2011:780; Deloitte 2011:3; KPMG 2010:1; Schanfield & Helming 2008:44; Ballou & Heitger 2005:8).

## 3 RESEARCH METHODOLOGY

This article reports on the results of a deductive study (Bryman 2012:24). The study pursued a literature review to determine the currently understood interrelationships between the features of ERM and combined assurance processes, and this was

supplemented by quantitative research that collected empirical evidence on how these features have been (or will be) considered by organisations within the private sector during the introduction or maintenance of combined assurance processes.

An e-mail and electronic survey (using a structured questionnaire) was deemed to be the most appropriate method for data collection as the study is substantially descriptive in nature, dealing mostly with questions on current practice (Babbie 2014:261; Zikmund, Babin, Carr & Griffin 2013:53; Thomas, Nelson & Silverman 2011:273). The survey questionnaire was divided into two sections. The first section concentrated on the respondent's profile (experience and qualifications) and the background of his / her organisation (its primary industry and shareholding status). The second section focused on the combined assurance process. The first objective here was to determine the maturity of the combined assurance and ERM processes within the respondent's organisation in order to contextualise responses. The next section contained various questions intended to determine the level of importance of specific factors and features present within the respondents' combined assurance process; the questions were developed from the elements discovered during the literature review. The questionnaire was pilot-tested by a senior internal audit manager and by an internal audit manager, each employed by large publicly listed private sector organisations. Ethical clearance for the study had previously been obtained from the University of Pretoria.

The survey questionnaire was distributed in two phases. In the first phase, a combination of purposive and judgemental sampling was utilised (Bryman 2012:418; Doyle 2011:340), whereby 28 CAEs within the private sector were identified and approached by means of a personalised e-mail invitation to participate in the study. The e-mail invitation was sent out on 29 August 2014. The e-mail invitation was followed by a second e-mail which included a formal, personalised letter of introduction and the survey questionnaire. The CAEs who had previously indicated that they were not willing to participate in the study were excluded from this mailing. The second e-mail was thus distributed to 25 CAEs on 7 September 2014. Weekly reminder e-mails were distributed up to 29 September 2014. This approach was followed in an attempt to increase the questionnaire's response rate. The second phase involved accessing the IIA's database of members to whom a bulk e-mail invitation was sent specifically inviting CAEs within the private sector to participate in the study. The bulk e-mail was distributed on 22 September 2014. A further 10 CAEs within the private sector were identified by means of purposive or judgemental sampling. An e-mail was sent to the identified CAEs on 22 September 2014, which again included a formal personalised letter of introduction and the survey questionnaire. Reminder e-mails were sent to this last group of CAEs on the 29 September 2014.

The survey questionnaire was submitted to CAEs within the private sector who were understood to be the highest ranking person responsible for the IAF in their organisations, and thus the most knowledgeable within their organisations on the subject of combined assurance, due to the important role the IAF should play within combined assurance (Grant Thornton 2012:5; IIA 2012b:10; Deloitte 2011:2). The distribution of the survey questionnaire was limited to the private sector because recent research has shown that the public sector's understanding of combined assurance appears to be "limited" (National Treasury 2014:2). Additional motivation for addressing the private sector CAEs is that the Johannesburg Stock Exchange (JSE) regulations require companies to "apply" King III principles or "explain" why they were not implemented (Deloitte 2011:1), adding further incentive for the private sector to implement a combined assurance process.

In total 38 CAEs were identified by means of purposive and/or judgemental sampling and twenty-nine of the 38 CAEs so identified finally participated in and completed the survey. This represents a 76% response rate. No responses were received from the bulk e-mail distributed by the IIA. The IIA confirmed that there are approximately 670 CAEs within the private sector recorded in their database (Brazao 2014). The twenty-nine CAEs that finally participated and completed the survey thus represent a response rate of four percent of all CAEs in the private sector.

This study was therefore based entirely on the responses received through purposive and judgemental sampling, which makes the sample "not representative". The results of the study should therefore be considered in the context of this limitation; but despite this, as combined assurance processes are a relatively unexplored area, the results will enhance the knowledge of this field.

## 4 RESULTS AND DISCUSSION

### 4.1 Respondents' profiles and organisational backgrounds

The CAEs were requested to indicate the number of years of experience they had as a CAE, and their professional qualifications. The majority of the CAEs (55%) had more than three years but less than 10 years of experience as a CAE, while for 24% of the respondents their experience was less than three years, and for 20% it amounted to more than 10 years of experience as a CAE. More than three quarters (76%) of the respondents were *Certified Internal Auditors*, 41% were *Chartered Accountants*, 17% had *Certifications in Control Self-Assessment*, 14% were *Certified Financial Services Auditors* and 10% had *Certifications in Risk Management Assurance*.

The majority of the CAEs operated within the financial services industry. The bulk of the respondents' organisations (79%) were listed on the JSE, while five respondents (17%) reported that their organisations were not listed on the JSE, nor on any other exchange.

### 4.2 The maturity of the combined assurance process within the respondents' organisations

Combined assurance had already been implemented by 15 (52%) of the respondents, while 10 (34%) reported being in the process of implementing combined assurance. The major organisational functions

identified by these respondents as being responsible for the implementation and maintenance of the combined assurance process (combined assurance champions) include *internal audit* (88%), *risk management* (68%), *executive management* (32%), *compliance* (28%), *legal* (24%) and *forensics* (12%). Combined assurance had not yet been implemented by four (14%) of the respondents (three of the four companies are listed on the JSE). Furthermore, six of the 10 respondents that are in the process of implementing combined assurance are listed on the JSE. The relative seriousness of this finding rests on whether these companies have formally "explained" the extent to which they adhere to the King III principles, because the JSE regulations require companies to "apply", or "explain" why the King III principles have or have not been implemented (Deloitte 2011:1).

The respondents that have implemented or are in the process of implementing combined assurance were required to rate the maturity of their combined assurance process on a 5-point Likert scale (1 - not mature and 5 - extremely mature). The average maturity rating of the combined assurance process claimed by the respondents that had already implemented combined assurance was above average (3.47), and very low (1.6) for the respondents that were in the process of implementing combined assurance.

### 4.3 The maturity of ERM within the respondents' organisations

A higher number of respondents (23, representing 79%) reported that their organisations have implemented ERM, while six (21%) were in the process of implementing ERM. Following the same 5-point Likert scale as above, the average maturity rating of ERM for the respondents that had already implemented ERM was above average (3.48), and again very low (2.00) for the respondents in the process of implementing ERM. An interesting observation is that for all the organisations where a combined assurance process had been implemented, ERM had also been implemented. The average combined assurance maturity rating (3.47) where the combined assurance process had been implemented was closely related to the average ERM maturity rating (3.67) within the same organisations. Not unexpectedly, it was also evident that where combined assurance was in the process of being implemented or was soon to be implemented the average ERM maturity rating was below average (2.64). It thus appears to be that a mature ERM is required before a combined assurance process can be implemented, a finding that is also supported in the literature where interrelationships between the ERM and combined assurance processes have been investigated.

### 4.4 Factors considered to be part of the combined assurance process

The respondents were required to rate on a 5-point Likert scale (1 - not all and 5 - extreme consideration) the extent to which specific factors (the organisation's key activities/processes, business objectives, value drivers, risk appetite, financial risks, operational risks, regulatory risks and strategic risks (EY 2013:8; Deloitte 2011:2; KPMG 2010:[1])) were considered to be part of the combined assurance process in their organisations. If a combined assurance process had not yet been implemented respondents were requested to consider the likely level of importance that would be attached to these factors during the implementation. The average consideration ratings for these factors were then determined. The organisation's *financial risks* (3.83), *key activities and processes* (3.72), *regulatory risks* (3.72), *operational risks* (3.69) and *strategic risks* (3.45) received above average scores and therefore represent the factors most frequently considered to be part of the combined assurance process. The *organisation's value drivers* (2.93), *risk appetite* (3.21) and *business objectives* (3.31) received average scores and were considered to be less important parts of the combined assurance process.

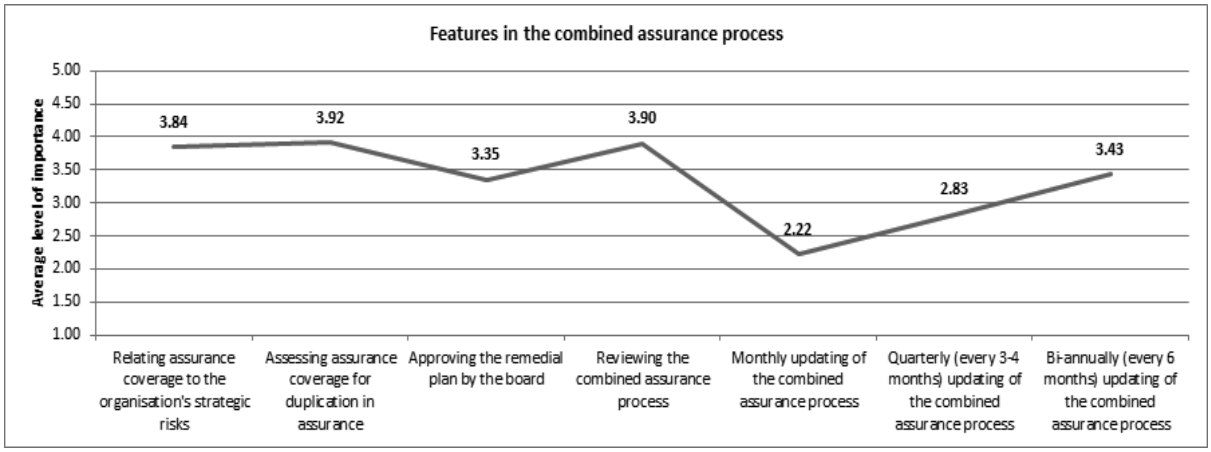
Further tests were performed on the data to determine the statistical significance of the differences between the responses from respondents in organisations that have already implemented combined assurance and those from organisations that were in the process of implementing combined assurance. The Mann-Whitney non-parametric test was used due to the small sample size and ordinal scaled data. A statistically significant difference was found to exist between respondents from organisations that have implemented combined assurance and respondents from organisations that are currently implementing combined assurance, for the following combined assurance factors: *business objectives* ($U = 36.00$, $p < 0.05$) and *value drivers* ($U = 40.50$, $p < 0.05$). These differences were determined at the five percent level of significance. Furthermore, the mean ranks indicate that respondents from organizations that have implemented combined assurance are more likely to consider their organizations' *business objectives* and *value drivers* (mean ranks of 15.6 and 15.3 respectively) as part of their combined assurance processes, than are the respondents from organizations that are currently implementing combined assurance (mean ranks of 9.10 and 9.55 respectively).

Statistically significant differences (both at the five percent and at the 10% levels of significance) exist between respondents in organisations that have implemented ERM and respondents in organisations that are currently implementing ERM, regarding the following combined assurance factors: *business objectives* ($U = 35.00$, $p < 0.10$), *value drivers* ($U = 31.50$, $p < 0.05$), *risk appetite* ($U = 32.00$, $p < 0.05$) and *strategic risks* ($U = 34.00$, $p < 0.05$). Furthermore, the mean ranks indicate that the respondents in organizations that have implemented ERM are more likely to consider their organizations' *business objectives, value drivers, risk appetite and strategic risks*, (mean ranks of 16.48, 16.63, 16.61 and 16.52 respectively) as part of their combined assurance processes than are respondents in organizations that are currently implementing ERM (mean ranks of 9.33, 8.75, 8.83 and 9.17 respectively).

### 4.5 Levels of importance attached to the steps / features of the combined assurance process

The respondents that have implemented or are in the process of implementing combined assurance had to rate the level of importance that they attached to each of 27 features of the combined assurance process (as set out in Annexure A) on a 5-point Likert scale (1 - not important and 5 - extremely important). These features related to five themes identified from the literature: responsibility for the process; assurance providers; assurance and risk mapping; checks in the process, and monitoring and reporting. The average level of importance ratings was determined and for 20 of the features very high scores (at least equal to 4.00) were obtained. Seven features, as depicted in Figure 1, were rated below 4.

**Figure 1: Features in the combined assurance process with lowest average scores**




Further tests were performed on the data to determine the statistically significant differences between responses from respondents in organisations that have implemented combined assurance and those that were in the process of implementing combined assurance. The Mann-Whitney non-parametric test was conducted. A statistically significant difference was found to exist between respondents from organisations that have implemented combined assurance and respondents from organisations that are currently implementing combined assurance for the following combined assurance features: *the identification of assurance providers* ($U$ = 32.00, $p < 0.05$); *assessing assurance coverage for excessive assurance* ($U$ = 37.00, $p < 0.05$), and *duplication of effort* ($U$ = 39.00, $p < 0.05$). These differences existed at the five percent level. Furthermore, the mean ranks indicate that the responses from respondents in organizations that are currently implementing combined assurance tend to rate the level of importance of the *identification of assurance providers, assessing assurance coverage for excessive assurance*, as well as *duplication in effort* higher (mean ranks of 17.30, 16.80 and 16.60) than the responses from respondents in organizations that have already implemented combined assurance (mean ranks of 10.13, 10.47 and 10.60). A probable explanation for this could be that for organizations that have already implemented combined assurance, these were preliminary actions long since completed, and thus are not rated as being as important as they are to organizations that are still in the process of implementing combined assurance.

### 4.6 Assurance regarding the effectiveness of combined assurance

The respondents that have implemented or are in the process of implementing combined assurance had to rate on a 5-point Likert scale (1 - not at all, 5 - significantly agree) the extent to which the board relies on the assurance provided by specific parties regarding the effectiveness of the combined assurance process. The average ratings were calculated and very high scores were received for the *audit committee* (4.42) and the *IAF* (4.33), identifying them as the primary parties the board relies on for assurance of the effectiveness of the combined assurance process. Above average scores were also received for the *risk management function* (3.65) and *external audit* (3.58).

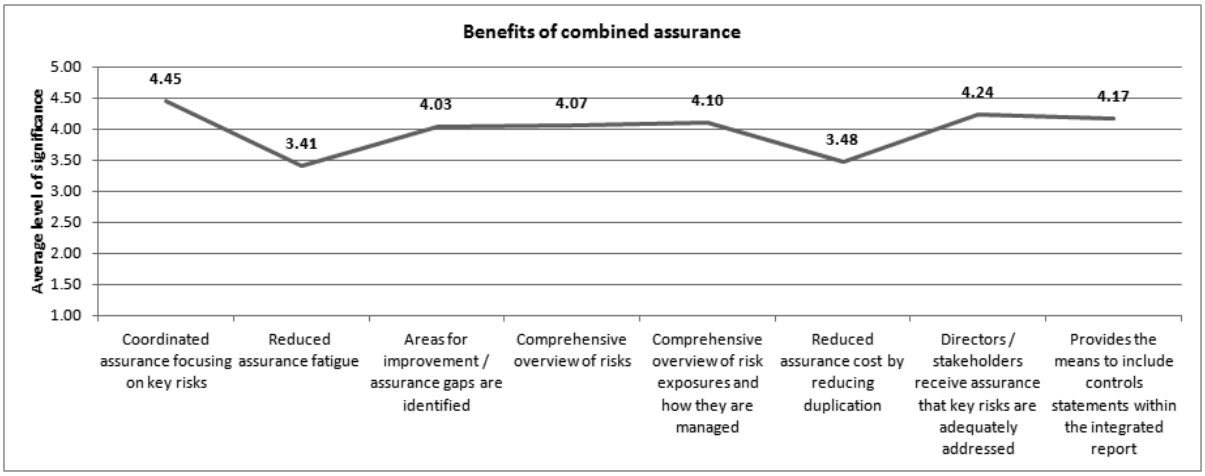
As was done for the findings already reported, the Mann-Whitney non-parametric test was again performed to determine statistically significant differences between responses from respondents in organisations that have already implemented combined assurance and those that were still in the process of implementation. A statistically significant difference was found to exist at the five percent and 10% levels of significance, between responses from respondents in organisations that have implemented combined assurance and responses from respondents in organisations that are currently implementing combined assurance regarding the parties that the board relies on to provide assurance on the effectiveness of the combined assurance process. These parties were: the *audit committee* ($U$ = 43.00, $p < 0.10$) and the *risk management function* ($U$ = 32.00, $p < 0.05$). Furthermore, the mean ranks indicate that the respondents from organizations that have already implemented combined assurance reported that their boards place more reliance on the assurance provided by the *audit committee* and the *risk management function* regarding the effectiveness of the combined assurance process (mean ranks of 15.13 and 15.87) than was reported by respondents from organizations that are currently implementing combined assurance (mean ranks of 9.80 and 8.70).

A probable explanation for this could be that for those respondents in the process of implementing combined assurance, the average maturity ratings of combined assurance and ERM are very low (1.6) and below average (2.64) respectively, and therefore they are not yet in a position to provide assurance over the combined assurance process.

### 4.7 Benefits of combined assurance

Lastly, the respondents had to indicate the extent to which they agreed with eight advantages of combined assurance identified during the literature review. Following the same 5-point Likert scale as above, the average ratings were calculated and the majority of the benefits received very high scores (equal to or above 4.00). The respondents significantly agreed that *combined assurance results in a more coordinated effort to ensure assurance efforts address key risk exposures* (4.45); that *combined assurance provides directors / stakeholders with the assurance that key risks are being adequately addressed* (4.24), and *combined assurance also enables the inclusion of control statements within the integrated report* (4.17), in line with the requirements of the King III report. *Reducing assurance fatigue, resulting in fewer operational disruptions* (3.41) and *reducing assurance costs by limiting duplication of effort* (3.48) also received above average scores. Figure 2 provides a breakdown of the average scores awarded to the previously identified combined assurance benefits.

**Figure 2: Benefits of combined assurance**




In line with the findings already reported, a Mann-Whitney non-parametric test was performed to determine the statistical significance of differences between responses from respondents in organisations that have implemented combined assurance and those that were in the process of implementing combined assurance, as well as between those that have implemented ERM and those that were in the process of implementing ERM. A statistically significant difference was found to exist at the five percent level of significance, between responses from respondents in organisations that have implemented combined assurance and responses from respondents in organisations that are currently implementing combined assurance for the following combined assurance benefits: *a comprehensive overview of risks* ($U$ = 32.00, $p < 0.05$), and *directors / stakeholders receiving assurance that key risks are adequately addressed* ($U$ = 39.50, $p < 0.05$). Furthermore, the mean ranks indicate that the responses from respondents in organizations that have already implemented combined assurance were higher with regard to the combined assurance benefits pertaining to *providing a comprehensive overview of risks*, and *directors / stakeholders receiving assurance that key risks are adequately addressed* (mean ranks of 15.87 and 15.37) than responses from respondents in organizations that are currently implementing combined assurance (mean ranks of 8.70 and 9.45). A probable explanation for this could be that, due to the average maturity ratings of combined assurance and ERM for respondents in the process of implementing combined assurance being very low (1.6) and below average (2.64) respectively, the abovementioned benefits have not yet been experienced or have only been experienced to a lesser extent.

A statistically significant difference exists at the five percent level of significance, between responses from respondents in organisations that have already implemented ERM and responses from respondents in organisations that are currently implementing ERM pertaining to the combined assurance benefit *directors / stakeholders receiving assurance that key risks are adequately addressed* ($U$ = 28.00, $p < 0.05$). Furthermore, the mean ranks indicate that the responses from respondents in organizations that have implemented ERM rank the combined assurance benefit pertaining to *directors / stakeholders receiving assurance that key risks are adequately addressed* higher (mean rank of 16.78) than do respondents in organizations that are currently implementing ERM (mean rank of 8.17).

The analysis of the responses revealed that it appears to be a prerequisite that a mature ERM process already exists before the implementation of a combined assurance process can successfully be undertaken. Furthermore, utilising the Mann-Whitney non-parametric test, significant differences at the five percent and 10% level of significance were identified between respondents from companies that had

already implemented combined assurance / ERM and those respondents from companies that are currently in the process of implementing combined assurance / ERM, relating to the combined assurance process.

## 5 CONCLUSION

Oversight responsibilities of boards have increased significantly, especially in the areas of risk oversight and obtaining assurance that significant risks are managed and mitigated to acceptable levels (within the organisation's risk tolerance levels). The appropriate management and mitigation of the risks facing an organisation are objectives of both ERM and combined assurance. The IAF plays a significant role within the ERM and combined assurance processes by providing assurance to the board / audit committee regarding the effectiveness of both processes. The results of the study support the view that the IAF is a major role player in the combined assurance process.

Interrelationships and similarities exist between the features of the ERM and the combined assurance processes. The most significant finding was that there appears to be a dependency on the ERM process as a prerequisite for the implementation of a combined assurance process. A key feature of combined assurance is the mapping of assurance to the organisation's risks. The focus of ERM is to identify the risks and opportunities which could impact the organisation's objectives. ERM should therefore be in place before a combined assurance process is implemented. Analysis of the responses from respondents in organisations that have implemented combined assurance and those currently implementing combined assurance revealed that organisations that have already implemented a combined assurance process had more mature ERM processes in place than did organisations in the process of implementing combined assurance, which supports the above-mentioned finding. Furthermore, the data analytics also revealed that nearly half of the respondents are currently in the process of implementing combined assurance, or will be implementing combined assurance soon. The majority of these respondents are employed by companies listed on the JSE, which could be a concern if these companies have not publicly explained the extent of their adherence to the King III principles.

Based on the results of the study, financial risks, key activities and processes, as well as regulatory, operational and strategic risks, were identified as the factors most often considered to be part of the combined assurance process. Statistically significant differences were found to exist between the perceptions of respondents from organisations that had implemented a combined assurance process and had mature ERM processes, and those who were from organisations that were in the process of implementing combined assurance and ERM processes. Nearly all features within a combined assurance process (as identified in the literature review), were perceived to be of importance, except for the frequent updating (monthly, quarterly or bi-annually) of the process, and the need for the remedial plan to be approved by the board. Respondents from organisations in the process of implementing combined assurance deemed the identification of assurance providers and the need to assess excessive assurance coverage to be of higher importance than did those with an established combined assurance process. Conversely the results further indicate that these respondents placed the importance of the audit committee and the risk management function within their organisations to provide assurance on the effectiveness of the combined assurance process at a lower level than those who had an established combined assurance process. All respondents believed that a combined assurance process does hold benefits for their organisations, especially to coordinate assurance that focuses on key risks; but as indicated above, statistically significant differences were found to exist between views of respondents from organisations that have already established combined assurance and ERM processes and those in the process of implementing such processes.

Combined assurance became mandatory in 2010 and is therefore still relatively new in South Africa. A future study on the combined assurance process could provide further insights into advancements in the combined assurance process, once combined assurance processes have matured. A future study focusing on identifying the requirements or needs of the board / audit committee pertaining to combined assurance could provide valuable insights into what makes combined assurance effective from their point of view. A further suggestion for a future study is to focus on the responsibilities of combined assurance's key role players (board, audit committee, internal and external assurance providers). Lastly a future study of the advantages of combined assurance, or a cost/ benefit analysis could be valuable to determine if combined assurance is a financially worthwhile exercise for organisations to undertake.

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**ENDNOTE**

[1] Chief audit executive is a generally accepted term used in the international internal audit standards to describe a senior official responsible for the internal audit department / the head of the internal audit department (IIA 2012a:19).

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**ANNEXURE A: FEATURES IN THE COMBINED ASSURANCE PROCESS**

| Nr | Responsibility |
|---|---|
| 1 | Defining the requirements of combined assurance |
| 2 | Assigning responsibility for the implementation of the combined assurance model |
| 3 | Assigning responsibility for the maintenance of the combined assurance model |
| 4 | Assigning responsibility for overseeing combined assurance |
| **Assurance providers** | |
| 5 | Identifying various assurance providers |
| 6 | Assessing the quality of assurances provided |
| **Assurance and risk mapping** | |
| 7 | Determining the assurance coverage needed from various assurance providers |
| 8-11 | Relating assurance provider coverage to the organisation's risks: Financial, operational, regulatory, strategic |
| 12 | Assessing the coverage of risks for completeness |
| 13 | Assessing the competence of assurance providers in relation to risks mapped |
| **Checks in the process** | |
| 14 | Assessing assurance coverage for gaps |
| 15 | Assessing assurance coverage for excessive assurance |
| 16 | Assessing assurance coverage for duplication in assurance |
| 17 | Compiling a remedial plan to address shortcomings |
| 18-19 | Approving the remedial plan by the: Board and audit committee |
| 20 | Tracking the remedial plan to ensure actioning |
| **Monitoring and reporting** | |
| 21 | Reporting on assurance provided for significant risks |
| 22 | Reporting on exceptions / red flags |
| 23 | Reviewing the combined assurance process |
| 24-27 | Updating the combined assurance process to evolve with the organisation's strategic objectives: monthly, quarterly, bi-annually or annually. |