

COMBINED ASSURANCE AS AN ELEMENT OF EFFECTIVE CORPORATE GOVERNANCE

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Abstract. This article deals with understanding of combined assurance, its benefits, objectives and models of combined assurance and its implementations.

Keywords: combined assurance, audit, assurance providers, defense models

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Introduction

As organizations expand and become more complex, so does the number of functions required to ensure that the board can properly perform their duties for effective control and risk management in the organization.

In this case, there is the problem of how to prevent management become overwhelmed by information, thereby creating a “assurance fatigue”. Combined assurance is an instrument of solving this problem by integrating alignment processes in the company, controlling effectiveness, and optimizing overall assurance for audit.

In accordance with the King III (The International Standards for the Professional Practice of Internal Auditing, 2013: 23) report of the combined assurance is considered as the process of integration and harmonization of support in the business to help ensure maximum risk management and oversight and improve management efficiency, and optimize overall assurance to the audit Committee and risk, taking into account the relevant risk expectations. In addition, combined assurance should help to improve the understanding of the General levels of confidence and how to solve and / or mitigate areas of risk (The small business environment, 2012: 16). Benefits from the implementation of the combined assurance model include such factors as coordinating and related processes which have to ensure a focus on key risks; minimizing operational failures of business, improving reporting and accountability and possible reduction of expenses on provision. In addition, it was discovered that a combined assurance model will provide a better understanding within organizations, whose assurance providers are confident in some areas of work.

This view is further illustrated by Felix (Felix, Gramling, Maletta, 2001), who found that the coordination of internal and external activities to ensure the audit has a diminishing effect on external audit fees. This inverse correlation between the fees of external audit and coordination of only two assurance providers can therefore possibly be enhanced through coordination of all providers of software, i.e. the combined provision.

Combined assurance: understanding, models and it’s applying in corporate governance

Combined assurance is an important area of research due to the requirement for boards of directors to comment on the effectiveness of their risk management and internal

management system for all types of risks. In the shell, the main idea of combined assurance is to provide complete assurance to the Council on the effectiveness of systems of risk management and internal control through coordination the provision of different sources of support.

Organizations have traditionally used numerous providers to help their boards of directors fulfil their responsibilities for the control and effective methods of management, legal departments, quality control, compliance, health and safety, corporate social responsibility and internal and external audits etc. As assurance providers carry out measures to ensure isolation, check, control and cost governing bodies may suffer from fatigue and assurance gaps that lead to their inefficient reporting. After receiving several opinions, the Board therefore is not able to perform its oversight role effectively. As a result, coordination among these various assurance providers is necessary. Bringing many assurance providers together to perform assurance activities helps to rationalize combined assurance and makes it more efficient, where amount of parties involved in the provision of assurance and their activities will require coordination and harmonization, as you can see on the Fig. 1.

In management zone, people are responsible for ensuring robust risk of management and control system so deviations are identifiable in time and adequately fixable. In internal assurance providers' area, people are responsible for auxiliary controls such as risk management, internal controls and internal audit. In external assurance providers' area, people are responsible for the independent external audit, such as external financial audit etc.

Through the effective use of combined software, a number of combined assurance could be implemented:

- more coordinated and relevant assurance efforts focusing on key risk exposures;
- eradication of assurance fatigue;
- a possible reduction in assurance costs;
- a common view of risks and issues across the organization is created;
- improved reporting to the Board / Accounting committees, including reducing the repetition of reports being reviewed by different committees;
- minimizing business/operational disruptions;
- cost savings.

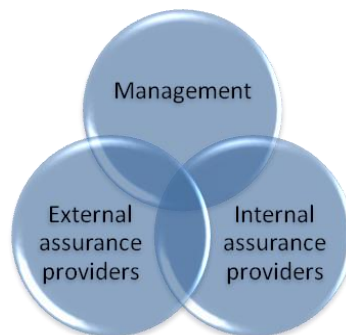


Fig. 1. Parties Involved in the Combined Assurance

Specific recommendations on how best to implement combined assurance are limited. However, there are several international standards of the IIS International Standards for the Professional Practice of Internal Auditing (Standards) indirectly related to the needs of

effective support. The following information describes these standards and provides an overview of different ways of combining assurance, including special attention to the role of the internal auditor in particular to ensure the independence of auditors. The applicable standards and guides are made according to the Three Lines of Defense model.

The Standards are included in The IIA's International Professional Practices Framework (IPPF), which provides internal audit professionals worldwide with authoritative mandatory and recommended guidance. Although there is no specific standard in the IPPF on how combined assurance should be provided, several standards are closely related (see figure 2).

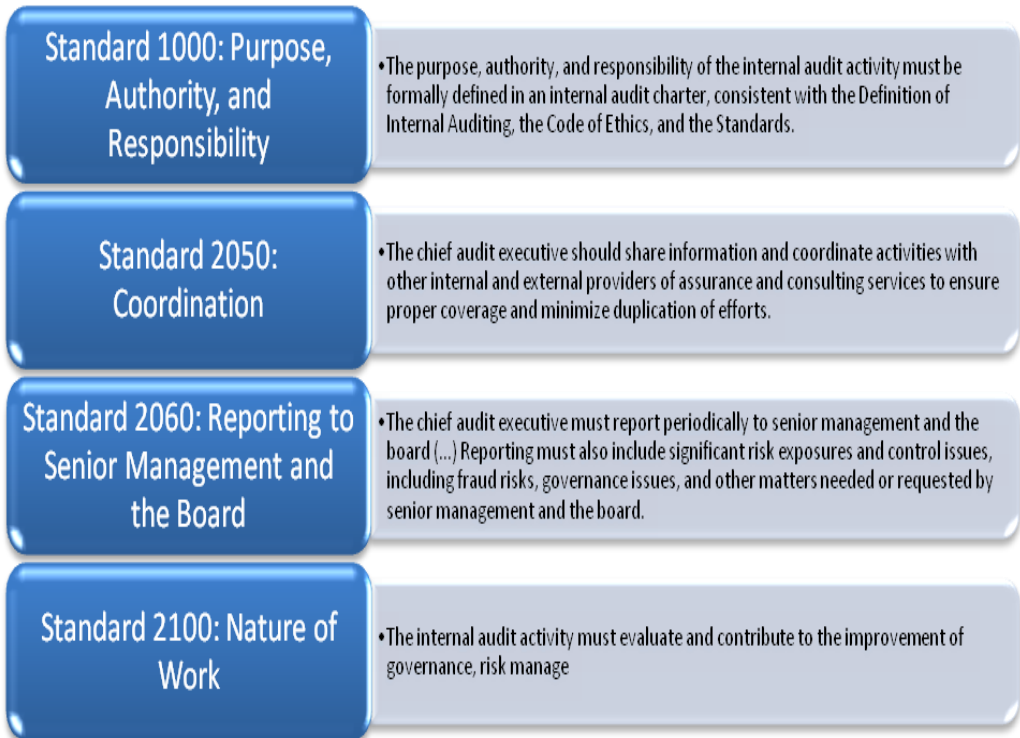


Fig. 2. IIA Standards (about Combined Assurance)

These standards certainly support the philosophy of combined assurance. Different types of coordination can be used, due to details below, however, concerning standards.

There are various methods and ways of combining assurance and standards do not offer their specific definition. When it comes to the type of coordination, variations depending on the specific requirements and kind of integration of individual organizations are the following:

1) Integrated audits. Coordination takes place through audit activities; specifically, performing audits together with supporting functions and/or the external auditor.

2) Process of integration. Coordination is through planning and reporting. The risk-based audit plan fully meets second-line management functions. Integrated reporting may be internally or externally focused. International Integrated Reporting Standard Council describes an integrated report as externally oriented and complex report. It is considered to be

a short message on strategy of organization, management, efficiency, and prospects in the context of the environment, leading to the creation value in the short, medium and long term.

3) Alignment through activities. Coordination is made through coordination activities or on structured or ad hoc basis.

4) Functional integration. Coordination takes place on hierarchical lines by combining internal audit functions, providing management, such as risk management, internal control and compliance standards.

Internal audit is separate from other control features: the first three methods of combined assurance are comprehensive audit, process integration, and coordination activities. Thus, these methods do not mutually exclusive and should be seen as complementing each other.

Combined Assurance and the Three Lines of Defense Model. The IIA endorses the Three Lines of Defense Model. Each of the three “lines” plays a distinct role within the organization’s governance framework. The different lines of defense within the organization may be described as follows:

1) First Line of Defense (examples on Figure 3):

Nature of Assurance: 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 Nature of Assurance: Corporate functions provide support to line management in executing their duties. These include functions such as HR, procurement, compliance, risk Nature of Assurance: Internal audit, Certifications, Regulator reviews, External Audit, Technical Audit, Forensic Investigations, external asset etc. Combined Assurance 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

Reporting lines: Executive Management Committees and Operational Committees providing direction, guidance and oversight focusing on the areas.

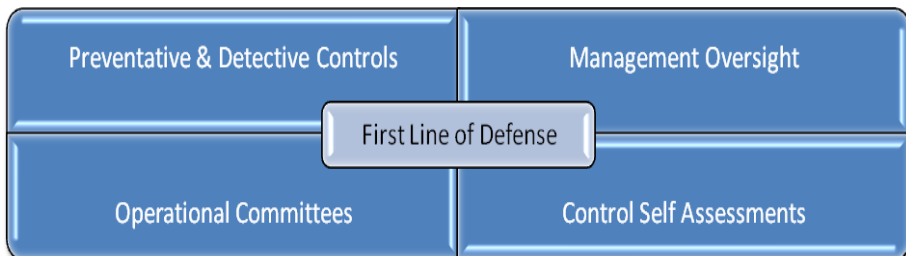


Fig. 3. First Line of Defense

2) Second Line of Defense (examples on Figure 4):

Nature of Assurance: 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.

Reporting lines: Risk Committees, Compliance Committee, Audit Committees, Regulatory Forums, HR Forums, Health and Safety briefings.



Fig. 4. Second Line of Defense

3) Third Line of Defense (examples on Figure 5):

Nature of Assurance: Internal audit, Certifications, Regulator reviews, External Audit, Technical Audit, Forensic Investigations, external asset management reviews (e.g. Matrix), valuers, culture climate surveys, assessment of ore/ mineral reserves (SRK).

Reporting lines: Regulators, Board and Audit Committees, (objectivity is a key criteria), C Suite



Fig. 5. Third Line of Defense

Primary responsibility for maintaining reliable control and enforcement procedures and legislation lies with management. However, increasingly selected tool was created to support and monitor these control activities. At the same time, increasing number of functions in the organization can cause management to become overwhelmed by information and the report. To avoid this, internal audit can:

- Coordinate and harmonize the activities of assurance participating in joint inspections or integration planning and reporting various assurance providers;
- Give confidence in management by reviewing the effectiveness of the so-called second line protective functions.

With the implementation of the combined software, one of the main objectives is to align various activities, methods work, determination and evaluation of various combined assurance.

Combined assurance is not the thing which can be achieved in one day. Key things are in statements below:

- internal audit plays a key role in managing implementation;
- the expected value should be formulated first of all;
- all participants must reach consensus on taxonomy;
- grade control and risk assessment should be standardized;
- the level of maturity of different players in combined assurance area should be defined.

Some scientists recommend the following steps when implementing combined assurance:

1. Make a business case. Talk about the benefits of introduction of combined assurance and evaluation project cost for this.
2. Make a list of providers of assurance. List the players who can help to control providing assurance on risks and control of the organization.
3. Map providers of risk assurance. Map risk universe and associate it with assurance providers, monitoring these risks.
4. Design verification plan. Determine who will provide assurance set of risks, including the role of internal audit, stating who will be assurance providers.
5. Create an implementation roadmap. Define a roadmap with key milestones. One of these must be to align the definitions and risks ratings used among the assurance providers to lay the foundation for implementing an effective combined assurance model.
6. Plan continuous improvement. Rate model of software on a regular basis, identifying areas for improvements and deciding how information and services to ensure the management can be further optimized.

Conclusions and suggestions

According to various authors, the definition of combined assurance is a process of integrating and aligning various assurance processes with each other and to the organization's risk expectations. Combined assurance is not a new concept. Assurance providers are required to provide feedback on all the processes within the organization. These processes can be divided into various activities namely: finance-related activities, strategy-related activities, environmental and culture-related activities, economic efficiency and governance processes/activities, and operational activities. The assessment of the internal control environment and risk management is the primary responsibility of internal audit that is required to provide an assessment of the effectiveness of internal control and risk management, as well as a written assessment of the effectiveness of internal financial controls. These above-mentioned activities should then be further defined and categorized taking as a basis their risk exposure. Business world continues to evolve at an accelerating pace and new risks arise as a matter of course. The combined assurance given by all participating assurance providers can benefit the organization by mitigating these significant risks with which organizations are faced.

To achieve sound corporate governance, combined assurance may be implemented in any organization and should address the requirements of that specific organization. Various models may be used to implement combined assurance. The model that is used should be specific to the organization's needs and appropriate to the requirements of the industry in which the organization operates. The combined assurance model that is used should address, link and utilize all the lines of defense present in the organization, in cases where the defense model is used. Similarly, in cases where the assurance model is used, all the assurance providers should be appropriately and effectively drawn into a single team.

To conclude, the role of internal audit is integral to the combined assurance process. The following key concepts were noted pertaining to combined assurance:

- combined assurance is a process of integrating and aligning the various assurance processes with each other and with reference to the organization's risk appetite;

- combined assurance should optimize overall assurance feedback to the audit committee, particularly as it pertains to the significant risks with which the organization is faced;
- internal audit should play an advisory role and should be seen as the custodian of the combined assurance process within the organization
- the combined assurance process should be seen as one of internal audit's key responsibilities within the organization;
- the audit committee should approve the combined assurance model that is to be used by the organization;
- effective combined assurance has the potential to eliminate silos and enhance decision-making within the organization.

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