CGF
RESEARCH INSTITUTE
(PTY) LTD
Corporate Governance Framework®

ARTICLE

Article issued by CGF Research Institute

Johannesburg
01 June 2012

COMBINED ASSURANCE: DOUBLE CHECKS BUSINESS REPORTING

Considering the heightened awareness of *governance reporting* and the *increased accountability* attached to directors; so much has changed for business leaders since the collapse of Enron and WorldCom in the United States, the HIH Insurance Group in Australia and Parmalat in Italy. Unsurprisingly, South Africa has also had its fair share of corporate failures, most notably those found in the cases of Aurora Mining company, Macmed, Leisurenet, Fidentia and Regal Bank. In most instances of corporate failures; these could be prevented -- or at least the damages reduced -- if good governance measures and early warning signs and reporting systems were in place. Increasingly, shareholders and the organisation's key stakeholders need more assurance that its leaders are properly equipped, skilled and experienced not only to lead the organisation, but also to protect it in the widest possible terms. This is one of the main reasons why these leaders were appointed in the first place; to protect, to serve and to deliver.

As many shareholders (and stakeholders) have drawn some hard learnt lessons through corporate failures – and often accompanied with massive personal financial losses – so they have begun to insist upon more assured, detailed and accurate business reporting from those who lead the organisation. Inadequate reporting and 'blind trust', based upon the 'gut feel' of these leaders is no longer acceptable to informed stakeholders; particularly considering the exorbitant packages earned by some of these leaders and whose responsibilities appear somewhat detached from the significant losses suffered through their inept leadership.

In an ideal world, it would have been reassuring if the organisation's stakeholders could simply take the Board's and CEO's word at face value, believing that all their governance and risk matters were correctly managed. Clearly this thinking has become rather naive, considering that many business leaders have proved that they cannot be trusted as they cheat to make their numbers, or they allow materialism and short-term gains to cloud their business judgement.

Accordingly, most of the larger organisations have been compelled -- driven by recommendations such as the King Report on Governance for South Africa 2009 (King III) -- to produce integrated reports that cover financial and non-financial matters; the latter specifically addressing the manner in which the organisation has dealt with social and environmental issues. In this regard, stakeholders -- but more specifically shareholders -- have become more circumspect in receiving one-sided reporting from a CEO or even the Board of directors. Since the release of King III, organisations are required to provide its stakeholders a Combined Assurance report that covers a more comprehensive, independently assured position that the organisation and its leaders have effectively and efficiently mitigated all the existing / known risks the organisation may face.

The term 'Combined Assurance' can be equated with governance, and calls for three levels of assurance that satisfies the organisation's stakeholders that the *leadership and management* have adequately dealt with the risks which affect the organisation. Not only must there be an account of what the risks are, there must also be an assurance of the manner in which these risks have been managed and that the organisation is protected from harm. More importantly, Combined Assurance seeks to verify by *external assurance providers*, the controls and processes in place used to mitigate these risks, who confirm -- as a double-check against the organisation's leadership -- that 'the coast is clear from danger' so to speak.

The Combined Assurance approach to risk management must be undertaken by appropriately skilled internal and external assurance providers; each who have a clear understanding of the organisation's operations, as well as its risk appetite and risk tolerance which is aligned in the organisation's strategy.

It therefore comes as no surprise why there is a critical need for directors and management to forge a closer working relationship when it comes to managing the organisation's risks, and that a 'silo' approach to risk management cannot be tolerated. Of course this thinking is perfectly aligned in King III which outlines the fact that the governance of risk should [must] be the responsibility [accountability] of the Board. Much of this thinking is also supported by the pressing issues cited by CEOs worldwide, commenting that some of their biggest concerns remain vested in;

1. understanding the impact of risk on their strategic operations;
2. ensuring that risk oversight is on the Board's agenda, as a matter of substance & process;
3. tightening risk management oversight; and
4. overseeing enterprise risk management, which includes all facets of the organisation's risk profile, including operational, financial, strategic, compliance & reputational risks.

For most South African companies and organisations; the guidance of risk, risk management and its responsibilities are not only found in the King III recommendations. The new Companies Act 2008 makes a number of references to the manner in which the leaders must conduct themselves and of course the organisation itself. There are significant, new areas of liability imposed not only upon directors, but also the organisation's prescribed officers (aka POs) who now have the same liabilities as directors. As the 'catchment net' has broadened as far as the liabilities for directors and POs goes, clearly Combined Assurance reporting will cause both directors and key management personnel who may be classified as POs, to reflect more carefully upon the manner of their reporting which now requires the assurance of an external verification.

Both the directors and prescribed officers will need to ensure that the divisional or 'silo' mentality which often exists in organsations is quickly dissolved as they offer the organisation's shareholders and stakeholders a Combined Assurance that they have the organisation's risks firmly under control, and across all levels. In fact, through the Combined Assurance reporting now required of organisations, business leaders and their management are beginning to realise that these new requirements are not that simple to comply with, most notably also that King III is perhaps not that simple to brush off as some menial task.

Gone are the days when business leaders could just ignore these recommendations which have become quite critical in order to ensure that organisations are acting ethically and that their leaders are *actually* directing and managing their organisations to the best of their abilities and in the interests of the organisation and its stakeholders.

Through Combined Assurance, it is expected that business leaders will adopt a much better and more pragmatic overview of the overall risks within the organisation, including the manner in which these risks are managed. Unlike the years gone by, the function of risk assurance cannot be left only to the internal and external audit teams and risk committees; through the provisions of King III and the new Companies Act 08, the Board as well as the members of the Board's sub committees -- including POs -- now also share these responsibilities such that a joint view of risk assessment, risk management and its reporting must be jointly undertaken by those now made responsible.

Matters will go off course if there are no agreed or formalised structures, neither policies that unify this process on an effective nor efficient, integrated risk management basis.

In concluding, Combined Assurance plays a key role in assisting the Board, its sub committee's members and prescribed officers to discharge their governance and fiduciary duties. Whilst Combined Assurance offers numerous benefits, its adoption will require clear thinking from all those who are held accountable for reporting, including those who are appointed as the external assurance providers of the organisation.

ENDS

WORDS: 1,256

Further Media Information:

Terry Booysen
CEO: CGF Research Institute (Pty) Ltd
Office: (011) 476 82 64 / 1 / 0
Cell: 082 373 2249
Fax: 086 623 1269
Email: tbooysen@cgf.co.za
www.cgf.co.za
www.corporate-governance.co.za
Follow CGF on Twitter: @CGFResearch