Draft King IV™ Report

on Corporate Governance for South Africa 2016

INSTITUTE OF DIRECTORS
SOUTHERN AFRICA

KING IV

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PART 1: INTRODUCTION AND FOUNDATIONAL CONCEPTS

South Africa has a proud tradition of corporate governance. Part One explains how this tradition has evolved. A firm grasp of the concepts, underlying philosophy and approach dealt with in this part is necessary for effective application of the Code and the Sector Supplements.

1. Introduction

Leadership and corporate governance go hand in hand and neither exists in a vacuum. Both need to be relevant to the situation in which they are applied. The drafting of King IV took place in the context of organisations having to contend with an increasingly dynamic and demanding external environment. In this environment, good corporate governance is essential if an organisation is to achieve prosperity for itself and the broader society.

Globally, leadership is being tested on issues as diverse as inequality, globalized trade, social tension, climate change, population growth, geo-political tensions, radical transparency and rapid technological and scientific advances. For South Africa, in particular, ageing and inadequate infrastructure, service delivery failures, skills shortages, corruption, social transformation, poverty and inequality are pressing matters.

The United Nations Sustainable Development Goals[1] (agreed by all governments in 2015), the Africa 2063 Agenda[2] and the (South African) National Development Plan 2030 (NDP)[3] are unanimous in setting out what needs to be done to achieve growth and sustainable development. Those charged with governance will be stretched beyond their comfort zones and will need to entrench a broader vision and thinking if they want to be part of accomplishing this.

Governance is indispensable for growth and prosperity. Every organisation that adopts good corporate governance contributes to sustainable value creation in South Africa, Africa and ultimately, globally.

[1] https://www.google.co.za/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=0ahUKEwif8ejl28nKAhWHaRQKHUWpBB4QFggZMAA&url=http%3A%2F%2Fwww.un.org%2Fsustainabledevelopment%2Fsustainable-development-goals%2F&usg=AFQjCNECESUopYh1xRqvCcsw2lmV-SGOuQ&sig2=ttujWrtlj61Db1_03-MNvQ

[2] Agenda 2063 – The Africa We Want, second edition August 2014 http://agenda2063.au.int/en/sites/default/files/agenda2063_popular_version_05092014_EN.pdf

[3] National Development Plan – 2030, National Planning Commission http://www.gov.za/sites/www.gov.za/files/Executive%20Summary-NDP%202030%20-%20Our%20future%20-%20make%20it%20work.pdf

2. Objectives of King IV

The objectives of King IV are to: -

- promote good corporate governance as integral to running a business or enterprise and delivering benefits such as (i) an ethical culture; (ii) enhancing performance and value-creation by the organisation; (iii) enabling the governing body to exercise adequate and effective control and (iv) building and protecting trust in the organisation, and its reputation and legitimacy
- broaden the acceptance of good corporate governance by making it accessible and fit for application by organisations of a variety of sizes, resources and complexity of strategic objectives and operations
- reinforce good corporate governance as a holistic and inter-related set of arrangements to be understood and implemented in an integrated manner, and
- present good corporate governance as concerned with not only structure and process but also an ethical consciousness and behaviour.

This Report is the fourth edition that sets out the philosophy, principles, practices and outcomes which serve as the benchmark for corporate governance in South Africa. An update of the previous version became necessary due to various developments in corporate governance since King III came into effect in 2009.

3. King IV definition of corporate governance

Corporate governance, for the purposes of King IV, is about the exercise of ethical and effective leadership by the governing body.

Such leadership includes four *overarching responsibilities of the governing body*: (i) providing strategic direction; (ii) approving policy to put strategy into effect; (iii) providing informed oversight of implementation and performance and (iv) disclosing.

Ethical and effective leadership should result in the following beneficial *governance outcomes* for the organisation: (i) an ethical culture; (ii) sustainable performance and value-creation; (iii) adequate and effective control by the governing body, and; (iv) protecting and building trust in the organisation, its reputation and legitimacy.

4. The underpinning philosophies of King IV

King IV does not represent a significant departure from the philosophical underpinnings of King III but there has been a refining of concepts.

4.1 Ethical and effective leadership

Ethics of governance

Good corporate governance has its foundation in effective and ethical leadership.[4] *Effective leadership* is about directing performance and it is results-driven. It is about achieving purpose and strategic goals. *Ethical leadership* is exemplified by responsibility, accountability, fairness and transparency. Ethical leadership and effective leadership should reinforce each other.

King IV is drafted on the premise that leadership starts with each person charged with governance duties, but in addition, the governing body as a collective must set the ethical example and tone. The governing body needs to be unified on matters such as the core purpose of the organisation, its culture, the drivers of value, its key stakeholder groupings and their legitimate and reasonable needs, interests and expectations.

Responsibility, accountability, fairness and transparency carry the following meanings in relation to ethical leadership:

Responsibility: The governing body should assume ultimate responsibility for the organisation, as well as the protection of resources: financial, manufactured, human, social and relational, and intellectual and natural capitals.

Accountability: The governing body should be held responsible for its decisions and actions by stakeholders. Accountability follows from the assumption or designation of responsibility. Governance structures and arrangements should connect responsibility and accountability. Accountability cannot be delegated or abdicated, and should be communicated clearly.

Fairness: The governing body should ensure that it balances in its decisions the legitimate and reasonable needs, interests and expectations of material stakeholders of the organisation, in the best interests of the organisation.

[4] King Report on Governance for South Africa 2009, Chapter 1, paragraph 1

Transparency: The governing body should ensure that reports and disclosure enable stakeholders to make an informed assessment of performance, including the impact of the organisation's activities and its ability to sustain the creation of value.

Governing ethically includes adhering to the following legal duties:

a. a duty to act with due care, skill and diligence, and
b. a fiduciary duty to act in good faith in the best interests of the organisation.

Governance of ethics

In addition to setting the example with its own ethical behaviour, the governing body should ensure that it governs the ethics of the organisation. The critical role of ethics cannot be overstated. As King III put it: "*ethics… is the foundation of, and reason for, corporate governance".*[5]

Ethics includes, but is not limited to, the prevention of fraud and corruption. Ethics refers not only to the relations between the organisation and its internal stakeholders, but extends to the organisation's ethical relationship with society, its responsibility for the ways resources are used and how outcomes are affecting the economy, society and the environment. Ethics considerations are part of the rationale for regarding the organisation as an integral part of society, for corporate citizenship, sustainable development and stakeholder inclusivity.

The governance of ethics refers to the role of the governing body in ensuring that the management of ethics results in an ethical culture. The governance of ethics in the organisation is the manner in which values are given expression and implemented. Both the ethics of governance and the governance of ethics should be in place.

Good ethics is the foundation of good business. Organisations should aim for a strong ethical culture that is self-policing, as the cost of failure to manage ethics is high.[6] The Center for Ethical Business Cultures maintains that "*organizations that build on an ethical culture outperform organizations that don't and reduce their exposure to ethical lapses that cause breakdowns*".[7] Unethical behaviour can severely damage the trust stakeholders place in organisations. Trust takes a long time to attain but can be lost very quickly. Loss of trust threatens the licence to operate, and diminishes or destroys intangible assets such as reputation[8] and intellectual capital.

[5] King Report on Governance for South Africa 2009, Chapter 1, paragraph 12
[6] Charted accountants Australia and New Zealand. (2013). Why Business Ethics Matter to Your Bottom Line. p11-14
[7] Mitchell, J.A. (2001). "The Ethical Advantage: Why Ethical Leadership is Good Business". *Centre for Ethical Business Cultures: Minneapolis*
[8] Rossouw, D. & Van Vuuren, L. 2013. Business Ethics (fifth edition). Cape Town: Oxford University Press, pp. 102-155

Ethics language: values, culture and character[9]

Values are included in documents such as statements of vision, mission and values, and corporate codes of conduct. In such documents, values are concerned with: how internal and external stakeholders should be treated; the purpose and objectives of the organisation; expectations for how work is done; and how stakeholders should conduct themselves. For the purposes of King IV, values are convictions and beliefs about what is important in all these aspects. Values are the foundation for the management of ethics.

The intended governance outcome of ethical behaviour, the governance of ethics and corporate citizenship is referred to in the Code as 'ethical culture'.

The term, 'culture' is well entrenched in the discourse on business ethics and corporate governance, but also in management disciplines in general. Its essence is: 'The way we do things around here when no one is watching'. An ethical corporate culture is therefore an indication of norms that have been established over time on the way things are done. Ethical benchmarks, as set out in ethics codes, should be the norm for behaviour before an organisation can claim to have an ethical culture.

'Character' is another term that is used in relation to ethics. With character, the emphasis is not in the first place on the action being right or wrong, but on the moral character of the person (be it a juristic or natural person) behind the actions. The recommended practices under Principle 1.1 of the Code, which addresses the decision-making and execution of duties by those charged with governance, invoke this meaning when referring to 'ethical characteristics'.

4.2 The organisation being an integral part of society – the context

> Organisations operate in a societal context, which they affect and by which they are affected. There is an interdependency between organisations and society; their fates are intertwined. As the World Business Council for Sustainable Development stated: "*Business cannot ultimately succeed in a society that fails*"[10].

An organisation has its own societies, made up by its stakeholders. But the organisation is also a sovereign juristic person in the broader society in which it operates. Organisations are dependent on this broader society to, for instance, provide a conducive operating environment, a customer base and talent. In turn, organisations contribute to the wider society as creators of wealth; providers of goods, services and employment; sources of taxes; and developers of skills.

[9] With acknowledgement to Prof Deon Rossouw
[10] World Business Council for Sustainable Development,

This idea of interdependency is supported by the African concept of Ubuntu, captured by the expression 'uMuntu ngumuntu ngabantu' - 'I am because you are; you are because we are'. Ubuntu implies that there should be a common purpose to all human endeavour (including in the corporate form) which is based on service to humanity. As a logical consequence of this inter-dependency, one person benefits by serving another. This is also true for a juristic person, which should serve its own as well as the broader society of stakeholders.

4.3 Corporate citizenship – the status of organisations in society

Corporate citizenship is about an organisation's status in the broader society. It is an inevitable consequence of being an integral part of society. As corporate citizen an organisation has rights, but also obligations and responsibilities towards society.

Corporate citizenship involves how an organisation uses its resources, and how it balances its needs with those of society, to achieve positive lasting outcomes for the organisation itself, society and the environment. By being a responsible corporate citizen, the organisation demonstrates recognition that its future is intertwined with the future of the economy, society and the natural environment.

A responsible corporate citizen responds to changing societal demands. Stakeholders such as customers and civil society expect to be informed, for instance, about an organisation's ethics regarding child labour, or the impact of its activities on the natural environment. This energetic activism of stakeholders extends to the whole of the supply chain of the organisation.

The Companies Act supports the notion of the company having obligations to society. The approach of the Department of Trade and Industry in its 2004 Policy Paper was that, in developing new companies' legislation, it would be guided by a legislative framework that "*reflects the recognition that the company is a social as well as an economic institution, and accordingly that the company's pursuit of economic objectives should be constrained by social and environmental imperatives*". The Act also gives substantially greater rights and remedies to stakeholders, including minority shareholders, and thus encourages stakeholder activism. It also includes the obligation for certain companies to establish a social and ethics committee.

The status of an organisation in society means that it is accountable not only for financial performance or for isolated corporate social initiatives, but for outcomes in the economic, social and environmental context. It is unethical for organisations to expect society and future generations to carry the economic, social and environmental costs and burdens of its operations. This wider accountability arises out of the impacts, positive and negative, on society and the environment and flows from the fast growth in economic power of multi-national organisations - economic power that rivals those of a number of countries.[11]

Strategies and policies to achieve responsible corporate citizenship should be planned and integrated across the organisation. The negative consequences of fragmentation or silo thinking include duplication of effort and missed opportunities for synergies. For example, an organisation may seek to respond to the pressing requirements of Broad-Based Black Economic Empowerment, but fail to integrate these efforts into a broader performance framework. This inculcates a short-term emphasis on 'box-ticking' compliance, thereby generating a corporate investment with poor social returns and inefficiencies as corporate policies, targets, and lines of reporting are duplicated or even contradictory[12].

4.4 Sustainable development – the response

Sustainable development, understood as "*conducting operations in a manner that meets the existing needs without compromising the ability of future generations to meet their needs,"*[13] is a primary ethical and economic imperative in response to the challenges and opportunities posed by the organisation being an integral part of society and its status as a corporate citizen.

Organisations should expand their view of success and redefine it in terms of long-term, positive outcomes for business, society and the environment.[14] The essence of sustainable development is an organisation enhancing its resources and the relationships that it relies on.

According to Tomorrow's Company, "*The survival and success of tomorrow's global company is bound up with the health of a complex global system made up of three interdependent sub-systems – the natural environment, the social and political system and the global economy. Global companies play a role in all three and they need all three to flourish.*"[15] Immense environmental challenges increasingly imperil lives - and livelihoods - across the globe. Yet solutions and opportunities, too, straddle economic, social and environmental dimensions. The need for an integrated response has never been greater.[16]

[11] Eccles, Robert G and George Serafeim. *Top 1,000 Companies Wield Power Reserved for Nations."* Bloomberg.com (September 11, 2012)
[12] King Report on Governance for South Africa 2009, Chapter 1, paragraph 31, 32
[13] United Nations World Commission on Environment and Development , Our Common Future (also known as the Brundtland Report), Oxford Press, 1987
[14] Tomorrow's Company, Tomorrow's Global Company: Challenges and Choices, September 2006, http://tomorrowscompany.com/sustainability-models-of-business-success-2
[15] Tomorrow's Company, Tomorrow's Global Company: Challenges and Choices, September 2006, http://tomorrowscompany.com/sustainability-models-of-business-success-2
[16] United Nations Environment Programme, *Inquiry: Design of a Sustainable Financial System*, October 2015, International Environment House

Sustainable development, being an integrated response, is not about environmental matters in isolation nor does it concern only the sustainability of the organisation. It is also not about corporate social responsibility in isolation from overall business strategy. Rather, it is about developing strategies so that success and performance can be measured in the economic, social and environmental context. It is about being attuned to risks and opportunities when defining the purpose and strategic objectives. Consequently, sustainable development should be embedded in strategy.

King III referred to the 'triple context' to denote the three dimensions: the economy, society and the natural environment. King IV refers to the 'triple context' or the combined economic, social and environmental context. The reference in this Report to 'context' is in the singular as these three dimensions are intertwined and should be viewed as an integrated whole.

The context within which the organisation operates is portrayed by the forms of capital that the organisation uses and affects. The 'six capitals' model[17] identifies financial, manufactured, intellectual, human, social and relational, and natural capital. The model proposes these categories of capital, but it is at the discretion of each organisation to identify the important physical and intangible resources that it uses or affects. It is not necessary that all of these resources are controlled or owned by the organisation. To be relevant to it, they simply have to be available to be used, transformed or provided.[18] The use, transformation or provision by the organisation of the six capitals is furthermore not static, but a dynamic process that changes over time and depends on particular circumstances.

In South Africa, social transformation and redress from apartheid is a sustainable development matter and an example of the importance of enhancing human, social and relational capitals. Integrating sustainable development and social transformation will give rise to greater opportunities, efficiencies and benefits, for both the organisation and the broader society.[19] If the connection between sustainable development and transformation is not fully understood, it leads to a dissociation between the two.[20]

Another sustainable development consideration pertinent to South Africa is unemployment which undermines growth and social stability. According to the World Economic Forum, there is a growing mismatch between the skills demanded by a fast-changing jobs market and those possessed by unemployed workers.

[17] The International Integrated Reporting Council; The International <IR> Framework, 13 December 2013 - http://integratedreporting.org/resource/international-ir-framework/
[18] WICI Intangibles Framework issued by World Intellectual Assets / Capital Initiative
[19] King Report on Governance for South Africa 2009, Introduction and background, p26
[20] King Report on Governance for South Africa 2009, Chapter 1, paragraph 32

Businesses are struggling to recruit workers with the necessary skills.[21] Organisations should be pro-active in developing the skills they will need, and not rely only on traditional educational systems.

Innovation, fairness, and collaboration are key aspects of the transition to sustainability: innovation provides new ways of doing things, including profitable responses to sustainability; fairness is vital because social injustice is unsustainable; and collaboration is often a prerequisite for large-scale change. Collaboration should not, however, amount to anti-competitive behaviour.

Current, incremental changes towards sustainable development are not enough. A fundamental shift is needed in the way organisations and those charged with their governance act and organise themselves. [22]

Leadership has to make sustainable development mainstream. Strategy, risk, opportunity, performance and sustainable development have become inseparable and are treated as such throughout the King IV Report.

4.5 Stakeholder inclusivity and responsiveness

Balancing the legitimate and reasonable needs, interests and expectations of all the organisation's material stakeholders in decision-making is a key duty of the -governing body. It is a dynamic process requiring a holistic approach when making trade-offs between stakeholders. Decision-making should be in the best interests of the organisation, considering the issue at hand and the surrounding circumstances at the time of the decision.

It is through responding to the legitimate and reasonable needs, interests and expectations of material stakeholders and by establishing relationships that an organisation becomes attuned to opportunities and challenges. Each of the forms of capital has one or more stakeholders with an interest in it.[23] Therefore a stakeholder-inclusive approach to decision-making supports he enhancement of the capitals and therefore also sustainable development.

Digital communication platforms such as social media enable the rapid spread of information about the organisation and what it does. This has changed the relationship between the organisation and all stakeholders. The 2016 Edelman Trust Barometer[24] refers to the "inversion of influence" in terms of which employees and peers are perceived to be more credible than leaders. Accordingly, search and social media represent two of the most-used sources of information. This has significant implications for the reputation of

[21] The Global Risks Report 2016, 11th edition, World Economic Forum, p73
[22] King Report on Governance for South Africa 2009, Introduction and background, p26
[23] Robert G. Eccles and Tim Youmans, Materiality in Corporate Governance: The Statement of Significant Audiences and Materiality, September 3, 2015, Harvard Business School
[24] Edelman Trust Barometer 2016, Annual Global Study, 2016 Executive Summary p8-9

an organisation. At the same time these developments offer an opportunity for organisations to demonstrate accountability by engaging with stakeholders in new ways that win trust and build reputation and legitimacy.

For some organisations, stakeholder relationships have become so important that they appoint an experienced executive to assume responsibility for these relationships. Whether an employee is appointed in this role or not, an organisation should understand the business's value proposition and the interdependence between the resources used by the organisation, its business model and products, and its stakeholder relationships.

To whom is a governing body accountable? Corporate governance models differ on the answer. King IV intentionally follows the tradition of its predecessors. It chooses a stakeholder-inclusive model that requires the governing body to consider, weigh and balance the legitimate needs, interests and expectations of all material stakeholders in making decisions in the best interests of the organisation.

For companies, it is recognised that in both the enlightened-shareholder model, as it is referred to, and the stakeholder-inclusive model of corporate governance, the board must consider not only shareholders but other stakeholders as well. The difference is that in the enlightened-shareholder model, stakeholders other than shareholders only have instrumental value; their legitimate needs, interests and expectations are only considered if it is in the interests of shareholders to do so. In the stakeholder-inclusive model, the board considers other stakeholders not merely as instruments to serve the interests of shareholders, but as having intrinsic value for decision-making by the board in the best interests of the company.

In the stakeholder-inclusive model, the best interests of the company are not necessarily equated to the interests of shareholders, and shareholders do not have predetermined precedence over other stakeholders. The interests of shareholders or any other stakeholder grouping may be afforded precedence, based on what is believed to serve the interests of the organisation at a point in time and depending on the circumstances. [25]

Value to shareholders is a result of the effective and responsible use of resources and of good relationships with stakeholders, rather than being the primary objective of the organisation. The best interests of the organisation should be interpreted within the parameters of sustainable development and of the organisation being a responsible corporate citizen. This approach means redefining success and performance in terms of sustainable value creation.

[25] King Report on Governance for South Africa 2009, Introduction and background, p23-24

4.6 Integrated thinking

Integrated thinking is defined as the pro-active *"consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects. Integrated thinking leads to integrated decision making and actions that consider the creation of value over the short, medium and long term. Integrated thinking takes into account the connectivity and interdependencies between the range of factors that affect an organization's ability to create value over time …*[26]

King IV advocates integrated thinking. Manifestations of this include: the organisation being an integral part of society and its resultant standing as a corporate citizen; sustainable development of the organisation in the economic, societal and environmental contexts; the six capitals model; and the stakeholder-inclusive approach.

Integrated thinking is about much more than eliminating silos. Integrated thinking[27] starts with the governing body making decisions in an integrated manner. Having the value-creation process as a regular agenda item will drive integrated thinking and reporting. Integrated thinking furthermore presupposes that the governing body gives regular consideration to how responsive the business model and activities are to changes in the external environment and expectations of material stakeholders.

With the governing body having set the tone, integrated thinking should be embedded through the integration of strategy, risk and opportunity, sustainable development, performance and outcomes.
Integrated thinking has particular relevance to the capitals that the organisation uses and affects. It results in an appreciation of the relationships amongst the capitals - for example, the training of employees diminishes financial capital but increases the human capital of the organisation.[28] It further leads to an understanding that capitals which do not belong to the organisation may nevertheless affect the capitals of the organisation itself. Human rights abuses (diminution of human capital) in the supply chain of an organisation may, for instance, affect the reputation (diminution of intellectual capital) of the organisation.[29]

Having a holistic view of the value-creation process of the organisation reinforces integrated thinking. This process consists of *input* in the form of the resources that the organisation uses; the business processes and activities that convert these resources into *output* consisting of products and services; which in turn leads to *outcomes* that either diminish or enhance the organisation's resources or capitals; and finally, *reporting* on value creation and performance. Chapter 2 of the Code deals with the value creation process by addressing

[26] The International Integrated Reporting Council; The International <IR> Framework, 13 December 2013 - http://integratedreporting.org/resource/international-ir-framework/
[27] Integrated Thinking: An exploratory survey, South African Institute of Chartered Accountants, 2014 http://www.integratedreportingsa.org/Portals/0/Documents/SAICAIntegratedThinkingLandscape.pdf , p10 and further
[28] Integrated Thinking: An exploratory survey, South African Institute of Chartered Accountants, 2014 http://www.integratedreportingsa.org/Portals/0/Documents/SAICAIntegratedThinkingLandscape.pdf , p10 - 11
[29] Integrated Thinking: An exploratory survey, South African Institute of Chartered Accountants, 2014 http://www.integratedreportingsa.org/Portals/0/Documents/SAICAIntegratedThinkingLandscape.pdf , p10 - 11

the formulation of core purpose and strategy, use of capitals in the implementation of strategy, oversight of output and outcomes and reporting.

There are noteworthy benefits to applying integrated thinking. Apart from the efficiencies that are created, some businesses have, for instance, found that effective management of natural capital through a conservative and astute use of water and electricity leads to cost reductions and therefore enhanced financial capital.

Integrated thinking also assists with integrated reporting, which in turn encourages integrated strategy formulation and implementation.

4.7 Integrated annual reports

> Integrated annual reports should 'tell the story' of *how* – that is, the activities by which the organisation creates value.
>
> An integrated annual report should explain the performance of the organisation and should have sufficient information on how the organisation has positively and negatively affected the economy, society and the environment. It should show what value the organisation has created (or not) through the enhancement or diminution of each of the different forms of capital.[30].
>
> Finally, integrated reports should look to the future. This enables stakeholders to judge whether the organisation can sustain delivery of value. The organisation should report on how its business model could be adapted to enhance the positive effects and eradicate or ameliorate the negative effects on the economy, society and the environment.

Integrated reporting was introduced into corporate governance in South Africa by King III and has since been adopted widely, both locally and internationally. King III defines integrated reporting as "*a holistic and integrated representation of the company's performance in terms of both its finances and its sustainability*"[31]. King III replaced the 'triple bottom-line' (and its depiction of the three separate bottom lines consisting of the economy, society and environment) with the intertwined economic, social and environmental 'triple context'. The significance of the change was that King III indicated that these aspects were intertwined. Accordingly, the King IV Code states in Principle 2.1 that "*The governing body should lead the value creation process by appreciating that strategy, risk and opportunity, performance and sustainable development are inseparable elements*".

[30] The International Integrated Reporting Council; The International <IR> Framework, 13 December 2013 - http://integratedreporting.org/resource/international-ir-framework/
[31] King Report on Governance for South Africa 2009, Chapter 9, Principle 9.1, par 1

The development of integrated reporting took place because traditional reporting did not reflect the reality of the triple context in which organisations operate. The annual financial statements of an organisation provide static, historic information. They do not inform on the value of intangibles, and external risks and opportunities. The annual financial statements also do not reflect how the organisation affects the context in which it operates.

In recognition of this, organisations issued sustainability reports in addition to or in combination with annual financial statements. However, financial and sustainability reports are inadequate if not integrated. The two parts on their own do not indicate how organisations actually function, or show how their capitals are interconnected and interdependent. The reality is a symphony of resources and relationships. Corporate reporting must demonstrate integrated thinking and provide a holistic account of organisational performance. The reporting by the organisation should reflect the reality of the triple context, to enable stakeholders to assess performance on a properly informed basis.

Although integrated reporting was introduced in King III, it has evolved through the work of the Integrated Reporting Committee in South Africa and the International Integrated Reporting Council (IIRC). King III refers, for instance, to a summarised integrated report and also to the possibility of more than one report. This had to be brought in line with the latest thinking on integrated reporting which is now defined as "*a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation of value over the short, medium and long term*."[32]

The ability to generate an integrated annual report without excessive effort indicates that an organisation has adopted integrated thinking. Therefore, apart from presenting information in a more meaningful format, integrated reporting is also a feedback mechanism on the state of integration of business structures and processes. Should operating and functional units make decisions and act in silos, it will be difficult to generate a report that is integrated.

Another benefit of integrated reporting is that it drives those charged with governance to apply their minds to deciding what information is material. Understanding materiality - those matters that could substantively affect the ability of the organisation to create value over time - is fundamental to the execution of fiduciary duties[33].

King IV relies on the philosophy and terminology that have developed on integrated reporting internationally.

[32] The International Integrated Reporting Council; The International <IR> Framework, 13 December 2013 - http://integratedreporting.org/resource/international-ir-framework/
[33] The International Integrated Reporting Council; The International <IR> Framework, 13 December 2013 - http://integratedreporting.org/resource/international-ir-framework/

The practice recommended in the Code is for the organisation to "*issue a report annually that presents material information in an integrated manner and that provides its users with a holistic, clear, concise and understandable presentation of the organisation's performance in terms of sustainable value creation in the economic, social and environmental context*".

The integrated annual report is positioned in King IV as a first reference point for stakeholders who wish to understand how the organisation creates value. Depending on statutory requirements and the needs of stakeholders, more detailed information could be provided in reports accessible through electronic platforms.

4.8 The future trajectory: the three shifts

The concepts dealt with above - leadership, the organisation in society, corporate citizenship, sustainable development, stakeholder inclusivity, integrated thinking and integrated reporting - are relevant to three connected paradigm shifts in corporate thinking.

From financial capitalism to inclusive capitalism

There is now general acceptance that a singular focus on the employment, transformation, and provision of financial capital represents only a fraction of decision-making and activities. Instead, inclusive capitalism takes account of employment, transformation and provision of all sources of capitals. Capitalism should be inclusive because it is the engine of shared prosperity.

Financial performance alone can no longer serve as proxy for holistic value creation. As stated by Labrey from the IIRC: "*Long-term financial performance depends on the efficient and productive management of resources not currently measured by traditional accounting methodologies – human, intellectual, social and relationship, and natural capitals*. *The financial capital market system is insufficient to guard against the multi-faceted and interconnected risks of the future and hence an inclusive market system should be adopted*."[34]

The system of donor aid from developed countries to developing countries should be replaced with a change of thinking in value. The aim of aid should be to drive inclusive capitalism in developing countries for holistic value creation. The more the organisation positively impacts on society and the environment, the more the quality of life in developing economies should improve.

From short-term capital markets to long-term sustainable capital markets

Performance in terms of all-inclusive value should also be assessed over the longer term. Therefore the capital market system must reward long-term decision-making.

[34] Jonathan Labrey, Three shifts towards better decision-making, May 2015 http://integratedreporting.org/news/three-shifts-towards-better-decision-making

The shift from short-termism to long-term thinking arises from the need to create value in a sustainable manner. The period indicated by long-term or longer term would depend on the strategic objectives of the organisation and the risks and opportunities presented by its external environment, including its material stakeholders.

From silo reporting to integrated reporting

We live in an era of radical transparency. There is a rethink on corporate reporting, in the light of challenges and opportunities such as inequality, population growth, climate change and natural assets being used faster than nature can regenerate them. This is evidenced by the European Union movement in governance, social and environmental reporting, the United Kingdom's strategic report and the content of reports filed with the United States Securities and Exchange Commission and the Operating Financial Review in Australia.

The traditional financial reporting system was a revolutionary development when it was instituted, and has since had to respond to market regulators, standards boards, and ever more complex legislation and the regulation of accounting and corporate reporting. It is now also accepted that, while fully compliant and duly audited financial statements are critical, they are insufficient to discharge the duty of accountability.

The move from silo reporting to integrated reporting is consistent with the concept of an inclusive, sustainable capital market system. It has been given impetus by acceptance of the triple context and the evolution of integrated thinking.

King IV takes cognisance of all these shifts.

5. Local and international developments since King III

5.1 Developments in international corporate governance

The research conducted for King IV included a comparative analysis of King III and international prescripts on corporate governance: NYSE Listed Company Manual[35], Australian Code[36], UK Code[37], OECD Code[38],

[35] US: NYSE Listed Company Manual § 303A.00, approved 22 August 2013
[36] Australia: Corporate Governance Principles and Recommendations, 3rd edition (2014)
[37] United Kingdom: The UK Corporate Governance Code, September 2014
[38]Company for Economic Cooperation and Development Principles of Corporate Governance, 2015

Canadian Code[39], OECD Principles[40] and local and international legislation affecting practices and reporting[41]. This analysis influenced the content of the King IV Report.

5.2 Tax

Tax has become a complex matter with various dimensions. The governing body and audit committee of an organisation should be responsible for a tax strategy and policy that are compliant but also congruent with corporate citizenship and wider stakeholder considerations, and take account of reputational repercussions.

Recent public reaction to organisations shifting profit for tax purposes to jurisdictions other than where they have their customer base and operational activities has shown that the due payment of taxes is now linked to corporate citizenship and reputation. It is no longer acceptable to have overly aggressive tax strategies and to exploit mismatches between the tax regimes of various jurisdictions, even if these actions are legal.

5.3 Balanced composition of governing bodies and independence

It is critical that governing bodies have a balance of skills, experience, diversity, independence and knowledge of the organisation. That balance is achieved by taking into account the specific needs of the organisation. Independence, though important, is but one consideration. The overriding consideration is whether the governing body is composed so that it is able to fully discharge its duties.

Even though some members of the governing body may be classified as independent and others not, as a matter of law, an independent state of mind and the responsibility to bring objective judgment to bear are part of the legal duties of all those charged with governance. This is true whether a person is classified as executive, non-executive or a non-executive independent member of the governing body.

In King IV, the criteria for classifying members of the governing body as independent go beyond using a checklist without exercising judgement. A person is independent who, in reality and appearance, has no interests or position in, or association or relationship with, the organisation which in the opinion of a reasonable and informed third party would affect that person's objectivity and impartiality.

[39] Canada: National Policy 58-201 *Corporate Governance Guidelines*, (15 April 2005); National Instrument 52-110 *Audit Committees* (effective 1 January 2011); *Form 52-110F1 Audit Committee Information required in an AIF;* National Instrument 58-101 *Disclosure of corporate governance practices* (effective 30 June 2005); *Form 58-101F1 Corporate Governance Disclosure; Amendment Instrument for National Instrument 58-101 Disclosure of Corporate Governance Practices*

[40] OECD Principles for Corporate Governance, 2015

[41] United Kingdom: Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, the directors' remuneration provisions of the Enterprise and Regulatory Reform Act 2013 and Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013; Australia: Corporations Amendment (Improving Accountability on Director and Executive Remuneration) Act 2011

5.4 Auditor and audit requirements

> To strengthen auditor independence, King IV recommends that the audit committee discloses the date of first appointment of the auditing firm or, in the event of a merger or acquisition of audit firms subsequent to first appointment, the date of appointment of the predecessor firm. In the interest of audit quality, King IV furthermore recommends that the audit committee discloses significant audit matters that arose from the audit, and how these matters were addressed by the audit committee.

Auditor independence remains a vital pillar of corporate governance. The recommendation in King IV on audit committee oversight of auditor independence is aligned with the publication of the rule by the Independent Regulatory Board for Auditors on 04 December 2015. This rule makes it mandatory that all auditors' reports on annual financial statements disclose the number of years for which the audit firm has been the auditor of the organisation. In King IV the length of audit firm-client relationship, together with significant changes in management and audit partner rotation during that time, and the extent of non-audit services rendered by the auditor, are factors to be taken into account by the audit committee when overseeing auditor independence.

Mandatory audit firm rotation and tendering have been introduced in some jurisdictions to reinforce auditor independence. Although South Africa has not done this, South African organisations operating internationally may be affected and audit committees may implement the mechanisms voluntarily. In such cases, the governing body should be mindful of the risks inherent in the learning curve that new auditors go through, and of the impact that audit firm rotation may have in a group that operates in various jurisdictions.

The oversight of audit quality is another international focus area. Audit committee disclosure on significant audit matters is the counterpart of the IAASB requirement for auditors to disclose. The intent is that audit committee and auditor disclosures should provide different but complementary perspectives.

5.5 Social and ethics committees

> In the King IV Code the role of the social and ethics committee is generally defined as "*uphold, monitor and report on organisational ethics, responsible corporate citizenship, sustainable development and stakeholder inclusivity*." This encompasses the statutory duties but the intent is to have the activities of this committee contributing to ethics, strategy and objectives beyond mere compliance.

Social and ethics committees were introduced as a requirement for some companies through the Companies Act, 2008. At the time that King III was launched in 2009, the regulations to the Companies Act which dealt with the membership and functions of these committees were not yet public.

Now, drawing on the regulations and experience, the Code can expand on the role of the social and ethics committee, and its integration with broader governing structures. Examples of matters further explored in King IV are this committee's direction and oversight of the management of ethics (which is not addressed in the regulations to the Companies Act), as well as the socially responsible aspects of remuneration policy.
An organisation that is not required to establish a social and ethics committee should nevertheless consider creating a mechanism that would achieve the aims of such a committee. Where organisations are legally

required to establish social and ethics committees, they must ensure that the intended objectives are achieved and that the committee does not concern itself only with mindless compliance.

5.6 New perspectives on risk

The traditional view of risk is that it is "*the effect of uncertainty on objectives*"[42] but risk can be seen from various perspectives. It is about not knowing what events may or may not occur, the likelihood of an event occurring and the possible effect (negative or positive) on objectives.[43]
King IV recognises that organisations strive to achieve strategic objectives in an increasingly volatile environment, fraught with uncertainties that may work to the benefit or detriment of the organisation, depending on its objectives. Mindfully taking these uncertainties into account when plotting the organisation's course makes it more likely that opportunities can be captured and risks mitigated.

The risk section in the Code has been drafted to reflect these matters, and the term 'risk and opportunity governance' is introduced.

Risks are evolving; they interact and are becoming more systemic due to globalisation and increased connectivity. It is said that "*risks materialise in new and unexpected ways*"[44] and that "*risk management must respond to the new normal*"[45]. The fast pace of change, including technology developments and impacts on the natural environment, presents many risks, such as the risk of stranded assets as a result of unanticipated or premature write-downs, devaluations or conversion to liabilities of assets that are no longer useful.[46] Organisations need to strengthen their ability to analyse complex and often hidden interdependencies and by building resilience. This is addressed in the Code.

The global financial crisis showed how excessive-risk taking could cause corporate failure. At the same time, risk is necessarily part of business, and enterprise can be defined as the undertaking of risk for reward. Risk-taking *per se* is therefore not to be discouraged, but rather excessive risk-taking. What would constitute excess is a matter of judgement by the governing body, which it should exercise and clarify by setting the level of risk appetite and tolerance.

5.7 Technology and information – the Fourth Industrial Revolution

[42] ISO 31000: 2009
[43] Contribution by Dr Gert Cruywagen
[44] The Global Risks Report 2016, 11th edition, World Economic Forum, p4
[45] Deloitte LLP, Global Risk Management Survey 9, 2015, focussed on financial institutions
[46] https://en.wikipedia.org/wiki/Stranded_asset#cite_note-1

> The advances in technologies and digitalisation are revolutionising businesses and societies. The effect is so profound that it is being referred to as the Fourth Industrial Revolution. Technology and information are key building blocks in the digital business value chain that consists of people, technologies, information and processes and that delivers the organisation's output.
>
> Strategically, governing bodies should be pro-active in ensuring that technologies and information are leveraged for growth. Advances happen quickly and can cause significant disruption, opportunities and risk. Organisations should strengthen processes that help to anticipate and respond to changes, including business model innovation.

Digital development such as robotics and artificial intelligence, Nano-technology, 3D printing, genetics and bio-technology has accelerated technology from being an operational enabler to leading the transformation of products, services and business models. Technologies have enabled organisations to personalise engagement with customers, to automate and optimise supply chains, and even to redefine the mechanisms by which value is generated.

Virtually all aspects of an organisation's operations are now supported by technology and information systems. These require further investment, as they are important strategic assets for capturing opportunities and gaining competitive advantage.

A particular risk and opportunity is that more categories of jobs will be automated. It is estimated that by the year 2020, nearly half of all current occupations could be affected by advances in robotics and machine learning.[47] Governing bodies need to consider the implications for the organisation, its employees and the broader society.

Information, like technology, is a growing source of competitive advantage and value-creation for organisations. Data is turned into information that leads to insight, intelligence and eventually foresight. The result is that the value of the intellectual capital of an organisation is increased.

5.8 Elevated focus on compliance

> Those charged with governance should ensure that compliance is understood not only for the obligations that it creates, but also for the rights and protections that it affords. A holistic view is needed on how applicable laws, non-binding rules, codes and standards relate to one another. This includes how corporate governance principles relate to relevant legislation.

[47] The Global Risks Report 2016, 11th edition, World Economic Forum, p18, 20

Organisations are faced with numerous and onerous regulatory requirements. Corporate governance practices should enable those charged with governance to deliver on these requirements, while still allowing for value creation.

King IV recommends that organisations should be more pro-active in engaging with regulators, legislators, and industry associations; otherwise, the practices recommended are similar to those in in King III.

5.9 Remuneration disclosure and voting

This Report aims to foster enhanced accountability on remuneration. Disclosure on remuneration should be in three parts: (i) a statement that provides the context for remuneration policy and decisions (ii) an overview of the main provisions of the remuneration policy and (iii) the actual remuneration awarded to each executive and prescribed officer.

This level of disclosure is strengthened by recommending that shareholders be given the opportunity to pass separate non-binding advisory votes on the policy and its implementation, but with the consequence that compulsory shareholder engagement is triggered in the event that either the policy or its implementation is not supported by a vote of at least 75% of the voting shares.

King IV recommends that variable remuneration be measured in accordance with targets relating to sustainable value created across the whole of the economic, social and environmental context. This is a departure from measuring financial targets only.

A subtle but important introduction by King IV is that the remuneration committee, social and ethics committee and governing body should consider and disclose the measures put in place to attain fair and responsible executive remuneration in the context of overall employee remuneration. This acknowledges the wage gap between remuneration for executives and those at the lower end of the pay scale.

The remuneration disclosure requirements set out to achieve a disclosure benchmark that enables a comparative analysis to be done among companies, organisations or entities within the same peer group.

Disclosure is also required on the use of remuneration consultants and the relationship of the consultant to the organisation or any of its directors or prescribed officers.

Fair and responsible remuneration is now seen as a corporate citizenship matter, to be overseen by the social and ethics committee in collaboration with the remuneration committee. The governing body has the ultimate responsibility for remuneration.

Disclosure and voting on remuneration are the subject of attention of many international regulators. The appropriate means of holding local organisations accountable on remuneration had to be considered, taking into account that South Africa is a participant in the global investment market but with its own unique set of circumstances.

5.10 Assurance and internal audit

King III introduced the combined assurance model, but this concept needs to be developed. King IV expands the traditional 'three lines of defence' to 'five lines of assurance' to incorporate all assurance role players. The model emphasises that assurance is not primarily about defence but rather about having an adequate and effective control environment and strengthening the integrity of reports for better decision-making.

King IV sets the requirement that: *"the audit committee should oversee that implementation of the combined assurance model results in combining, co-ordinating and aligning assurance activities across the various lines of assurance, so that assurance has the appropriate depth and reach."* In a combined assurance model, some of the lines of assurance, such as internal audit, risk and compliance, operate across a broad spectrum of the business ('horizontally'); others, such as line managers, geologists or safety assessors, might focus more narrowly within a specific function of the business, on frameworks, policies, processes, systems and controls ('vertically'). The alignment of these activities creates a matrix for an effective control environment and integrity of reports.

Internal audit as part of the third line of assurance remains pivotal to corporate governance. Its role has evolved in recent years for it to contribute insight in the business and furthermore, foresight through the use of pattern recognition, trend assessment, analysis and scenarios. An internal audit function should strive for this level of excellence.

Integrated reporting has brought challenges regarding independent assurance of this reporting. These include how materiality should be defined for purposes of inclusion of information, and provision of assurance on matters for which there are very limited assurance standards in place. The Code requires the governing body to apply its mind to this.

5.11 Shareholder activism

Shareholders and particularly the institutional investor should hold the board to account on the application of voluntary codes of governance. There should be an agreement or tacit understanding between the board, the company and its shareholders on what the creation of value entails and how performance is measured and rewarded. Having a common understanding on this results in the company and its shareholders working in unison towards sound corporate governance.

Institutional investors, in addition, carry fiduciary duties to their ultimate beneficiaries - those who contribute to pension and retirement funds and their dependants. Governing bodies of institutional investors should ensure that they apply the principles of responsible investment towards long-term, sustainable returns. Responsible investing practices are set out in the Code for Responsible Investing in South Africa (CRISA), in line with the United Nations Principles on Responsible Investing.

The previous King reports were written from the perspective of the governing body as the focal point of corporate governance. This perspective has been broadened somewhat in that King IV requires the governing body of an institutional investor to ensure that the organisation responsibly manages its rights, obligations, legitimate and reasonable needs, interests and expectations, as holder of beneficial interest in the securities of a company.

Increased shareholder activism is encouraging, as shareholders have a key role in promoting good governance. Corporate governance failures are at least partly due to an absence of active institutional investors, or otherwise due to a major or sole shareholder illegitimately assuming what are essentially the functions of the board of the company. Shareholders have no fiduciary duties to the company and when they usurp the responsibilities of the board it results in a disconnection between responsibility and authority.

On the legal responsibilities of institutional investors, a 2005 report commissioned by UNEP FI from law firm Freshfields Bruckhaus Deringer concluded that integrating environmental, societal and governance considerations into investment analysis is “*clearly permissible and is arguably required*.” A report issued in 2015 Fiduciary Duty in the 21st Century[48] states that “*failing to consider long-term investment value drivers, which include environmental, social and governance issues, in investment practice is a failure of fiduciary duty*.” Further support for this is found in the preamble of regulation 28 issued by the Minister of Finance under section 36 of the Pension Funds Act, 1956 which states that prudent investing “*should give appropriate consideration to any factor which may materially affect the sustainable long-term performance of a fund’s assets, including factors of an environmental, social and governance character*”. In conclusion, the sustainable development of investee companies should be supported by the institutional investor, who is thus discharging its legal duty to its ultimate beneficiaries.

In order to address the responsibilities of institutional investors, CRISA was issued in 2011. CRISA encourages all role players in the investment chain to become aware of their duties, but places accountability for responsible investing on the owner of the equity, who should regulate and monitor the application of CRISA.

There is an opportunity to provide a framework, through King IV, for the responsibilities of institutional investors and majority or sole shareholders to be incorporated in the overall corporate governance system of checks and balances.

5.12 Dispute resolution

> A dispute resolution process should be regarded as an opportunity to not only resolve the dispute at hand, but also to identify and address actual and potential business and relational challenges. Dispute resolution becomes a business management tool that is used in the best interests of the organisation to enhance its social and relational capital.

[48] Supported by United Nations Global Compact; United Nations Environment Programme Finance Initiative; Principles for Responsible Investment Initiative; Inquiry into the Design of a Sustainable Financial System initiated by the United Nations Environment Programme

Since alternative dispute resolution mechanisms were introduced formally in King III, it has become more than an alternative to judicial process. It is now an established element of good governance.

Resolving disputes expeditiously, efficiently and effectively has gained increased importance in light of labour strike action becoming protracted and in some cases hostile. Business relationships are a form of capital that all organisations rely on.

The governing body should ensure that mechanisms and processes are in place to resolve disputes.

King IV advocates that dispute resolution mechanisms and associated processes be adopted and implemented, as set out in King III.

PART 2: CONTENT ELEMENTS AND DEVELOPMENT

1. Overview of the nine parts of the King IV Report

Part 1 FOUNDATIONAL CONCEPTS	Part 2 CONTENT ELEMENTS AND DEVELOPMENT	Part 3 APPLICATION OF KING IV
Part 4 KING IV ON A PAGE	Part 5 KING IV CODE consisting of 5 Chapters	Part 6 SECTOR SUPPLEMENTS
Part 7 APPLICATION REGISTER	Part 8 GLOSSARY OF TERMS	Part 9 KING COMMITTEE

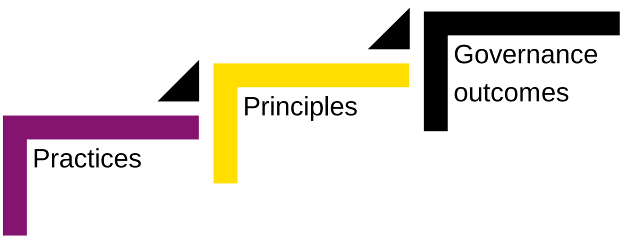
2. King IV Code elements

2.1 Practices, principles and governance outcomes

> A primary aim of King IV is to reinforce corporate governance as a holistic and integrated set of arrangements. The application of practice recommendations should give effect to the principle. The achievement of principles lead to the realisation of the related governance outcome.

When there is an understanding of the benefits of corporate governance and how it can be harnessed in the interests of the organisation, this understanding allows for application that contributes to performance rather than detracting from it. The following content elements are differentiated in the King IV Code:

- Practices
- Principles, and
- Governance outcomes.



A major challenge in implementing codes of corporate governance is that practices could be mindlessly adopted as if these were rules, resulting in corporate governance becoming a mere compliance burden.

This inflexibility also leads to an inability to apply codes of corporate governance in a mindful way that takes account of the size, resources and the complexity of strategic objectives and operations of an organisation.

Practices are recommended at an optimum level of corporate governance and should be adapted - taking account of the specific size, resources and the complexity of strategic objectives and operations of the organisation – so that the principle is achieved.

The *principle* under which a practice recommendation is made in the Code serves as guide to direct organisations on what they should set out to achieve with implementing the practice. Principles build on and reinforce one another.

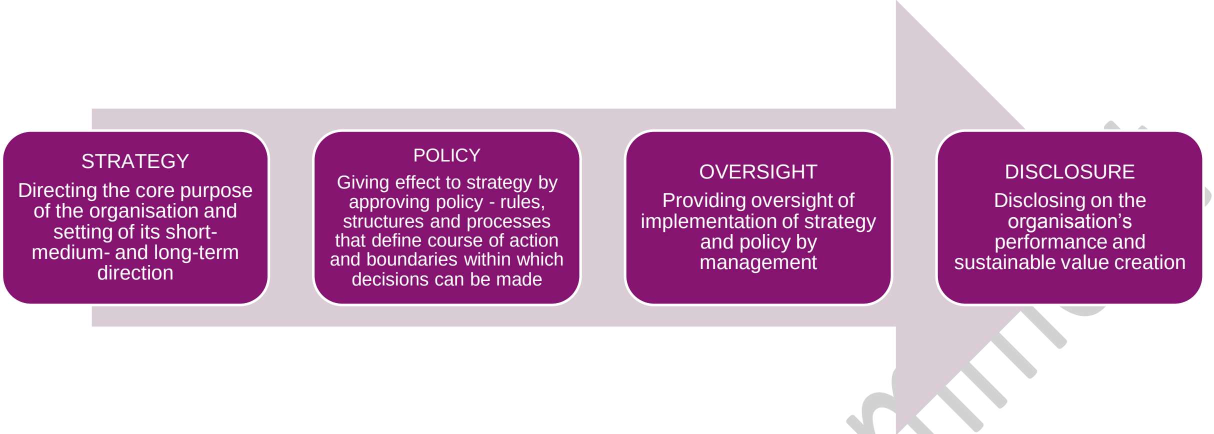
Governance outcomes are the benefits that could be realised in the event that the underlying principles are fully achieved. Both governance outcomes and principles are phrased so that they hold true across all organisations.

The chapters in the King IV Code are organised so that the principles and the practices in each support the realisation of the intended governance outcome for that chapter:

CHAPTER AND CONTENT	GOVERNANCE OUTCOME
CHAPTER 1: LEADERSHIP, ETHICS AND CORPORATE CITIZENSHIP *Ethical leadership* **I** *Organisational values, ethics and culture* **I** *Responsible corporate citizenship*	**ETHICAL CULTURE**
CHAPTER 2: PERFORMANCE AND REPORTING *Strategy, implementation, performance* **I** *Reports and disclosure*	**PERFORMANCE AND VALUE CREATION**
CHAPTER 3: GOVERNING BODY STRUCTURES AND DELEGATION *Role of the governing body* **I** *Composition of the governing body* **I** *Committees of the governing body* **I** *Delegation to management* **I** *Performance evaluations*	**ADEQUATE AND EFFECTIVE CONTROL**
CHAPTER 4: GOVERNANCE FUNCTIONAL AREAS *Risk and opportunity governance* **I** *Technology and information governance* **I** *Compliance governance* **I** *Remuneration governance* **I** *Assurance*	**ADEQUATE AND EFFECTIVE CONTROL**
CHAPTER 5: STAKEHOLDER RELATIONSHIPS *Stakeholders* **I** *Responsibilities of shareholders*	**TRUST, GOOD REPUTATION AND LEGITIMACY**

2.2 Role and leadership responsibilities of governing body

Another feature of the organisation of the Code is that the overarching, high-level leadership responsibility of the governing body (as represented below) produces a golden thread throughout. Every sub-section in the King IV Code chapters addresses each of the leadership responsibilities depicted below. The practices are organised to address the strategy, policy, oversight and disclosure role respectively.



3. Sector Supplements

The sector supplements provide the applicable terminology and address the governance challenges and considerations of that sector. In respect of all categories of organisations and sectors, the essence of the King IV Code, namely the governance outcomes and principles hold true. The principles and outcomes are therefore carried forward to each of the supplements with the necessary changes in terminology. It is only at the level of practices that differentiation is made in respect of the different categories of organisations.

South Africa and the King Committee have received many accolades locally and internationally for the progressive stance of King III and its predecessors. However, not all organisations are benefiting from this achievement. Public entities follow a Protocol on Governance which is based on an earlier version of the King report. Despite King III's holistic principle-based approach, some non-profit organisations deem it unachievable due to a lack of resources to meet requirements that are in fact intended for large and complicated structures. Small and medium-sized companies also generally still share the view that corporate governance is not applicable to them.

At the same time, the need for collaboration between various sectors in the interests of socio-economic imperatives is growing, and therefore good governance should be institutionalised across all organisations. This is why the King Committee decided to clarify how King IV should find application in specific categories of organisations and sectors. The King IV Report includes sector supplements that provide specific guidance to the following categories of organisations and sectors, in addition to the traditional audience of listed, public and large private companies:

- SMEs
- Non-profit organisations
- Public sector organisations and entities
- Municipalities, and
- Pension funds.

While the principles in King IV are universally applicable, the practices that support their achievement may differ in certain entities and sectors, without compromising the objectives of good corporate governance. The sector supplements have been developed to provide specific guidance on practices where appropriate.

For most of the sectors, there are specific governance regulations applying. The supplements provide high-level direction on reconciling King IV with these regulations, as well as guidance on how to give effect to the law as far as it pertains to corporate governance. The principles as contained in King IV are intended to be complementary to laws and regulations.

These supplements are not intended to be used on their own and should be read in conjunction with the other Parts of the King IV Report.

4. Content development process

The process for the development of King IV was designed to build on the strengths of King III.
The King Committee also aimed to foster a sense of ownership in King IV by involving during its development as many as possible of those who would be affected by it. To this end the King IV drafting process was designed to be widely consultative, so that bottom-up development was accomplished rather than being externally imposed.

The drafting of King IV was led by the King IV Project Lead and a task team was appointed by the King Committee from its membership to oversee the drafting process, with the King Committee itself providing final approval. The qualification criteria for serving on the task team were strong technical corporate governance knowledge and experience, and no affiliation to industry or sector bodies. The chairman of the King Committee, the King IV Project Lead and members of the Task Team collaborated closely in preparing the various drafts for consideration by the King Committee.

The philosophy, principles and practices in King III were the starting point for content development. The input from the consultation meetings and the matters that had to be addressed as a result of local and international corporate governance developments were also considered.

There were no standing working groups or sub-committees set up for development of content. Particular topics and the governance of organisations in the non-profit, SME, retirement fund and public sectors were explored through a series of working sessions. The Appreciative Inquiry methodology, which as the point of departure looks to positives and possibilities to enhance rather than deficiencies, was employed to conduct these working sessions. Participants in the working sessions were a combination of technical corporate governance experts and representatives from interest groups or sectors.

With King III being the basis, comments from consultation meetings, local and international developments and the input from the working sessions were collated and supplemented by a number of *ad hoc* focus group sessions, convened to address specific matters and the various sectors in more depth.

The King IV Report was subjected to a formal public comment process which consisted of soliciting public comments as well as a number of face-to-face interactions.

5. Drafting convention

The drafting convention agreed by the King Committee encompasses the following:

- succinct and concise style
- citing of legislation only where necessary for context
- non-prescriptive as far as possible
- limited reference to specific standards and guidelines
- ‘must’ denotes legislative provision; ‘should’ denotes recommended practice
- limited use of examples
- use of cross-referencing instead of repetition to achieve greater integration, and
- gender neutrality.

6. Presentation features of King IV

The following are the main presentation features of King IV:

- Clear differentiation is made between principles and practices - the former to be achieved by mindful implementation of practices.
- Principles are linked with intended governance outcomes so that it is evident what the benefit of achieving the principle is
- The configuration of King IV is designed to assist with accessibility and to portray governance as a holistic and integrated set of arrangements.
- Supplements are provided to guide governance in various sectors and categories of organisations.
- Guidance is provided on the proportional application of King IV so that application can be scaled according to the size, resources and complexity of strategic objectives and operations of the organisation.
- An ‘apply and explain’ application regime is adopted to encourage qualitative application.
- To balance the less prescriptive approach, there is greater emphasis on transparency that explains how judgement was exercised. A specimen application register demonstrates disclosure.

PART 3: APPLICATION OF KING IV

1. Legal status of King IV

The governance of organisations can apply on a statutory basis as rules, as a voluntary code of principles and practices, or a combination of the two. The legal status of King IV, as with its predecessors, is that of a set of voluntary principles and good practices. In South Africa, as in many jurisdictions around the world, hybrid systems of corporate governance have developed, as some practices of good governance have been legislated in parallel with the King voluntary codes of good governance. If a conflict between legislation and King IV exists, the law prevails.

Good governance is not something that exists separately from the law. A court will consider all relevant circumstances, including what is regarded as the accepted practice in a particular situation. The criteria of governance codes and guidelines will be relevant to determine what is regarded as an appropriate standard of conduct for those charged with governance duties. The more established certain governance practices become, the more likely it is that a court would regard conduct that conforms with these practices as meeting the required standard of care. Corporate governance practices, codes and guidelines, therefore, set the bar of what is regarded as appropriate standards of conduct. Consequently, failure to meet an established corporate governance practice, albeit not legislated, may invoke liability.

There is an important argument against the mandatory 'comply or else' framework: a 'one size fits all' approach cannot logically be suitable, because the types of business and enterprises carried out by organisations are so varied. Further, the danger is that the governing body may become focused on mindless compliance instead of applying its mind to the best governance practice for the particular issue before it. [1] As outlined above, a corporate governance code applying on a voluntary basis does not mean that there are no legal consequences.

For directors of companies, adopting good corporate governance practice will be especially important for a court in considering whether the protection afforded by the business judgement rule as provided for in the Companies Act applies. In the absence of robust governance structures and processes, it will be difficult if not impossible for a director to show: that reasonably diligent steps have been taken to become informed; that material financial interests were absent or dealt with appropriately; and that there was a rational basis for believing - and that the director did believe - the decision was in the interests of the company.

2. Scope of application of King IV

Codes of corporate governance are concerned with the role and functions of the governing body and its interaction with management and other material stakeholders. The governing body is the focal point of corporate governance in an organisation and hence is the primary audience of King IV.

The King IV Report has been drafted with the aspiration that it should apply to all organisations, regardless of their form of incorporation. It is a main objective of the King IV Report to broaden acceptance of corporate governance by making it accessible and fit for application across sectors, organisations and entities of a variety of sizes, resources and complexity of strategic objectives and operations.

[1] King Report on Governance for South Africa 2009, Introduction and background, p9

That there are supplements for specific categories of organisations does not detract from the King IV Code having been drafted to be suitable for application by all organisations, even if not provided for expressly in the Code or the supplements. Principles and intended governance outcomes are phrased so they form the essence of the Code and can be applied to all categories of organisations with the necessary adaptation of terminology. The differentiation lies in practices that should be adopted taking into account the particular sector and proportionality considerations.

3. Proportionality – appropriate application and adaption of practices

The essence of King IV is the principles and the intended governance outcomes which are, subject to the necessary changes in terminology, applicable to all organisations. King IV was drafted so that differentiation in the application of corporate governance is accomplished through the practices. The practices as recommended in the Code are pitched at an optimal level and may not be appropriate for all organisations. The mindless compliance of a quantitative approach is not the aim. Instead King IV strives to instil a qualitative approach where recommended practices are considered to achieve the principle and realise the intended governance outcome. Application of practices should be adapted and varied as appropriate to the size, resources and complexity of strategic objectives and operations of the organisation.

Practices are meant to be proportionally applied taking the following into account in relation to the organisation:

- size of turnover and workforce
- resources, and
- complexity of strategic objectives and operations.

The smaller and less complex an organisation, the more it should consider recommended practices proportionally according to the scale of its operations. Organisations that are by nature and in terms of objectives of public interest, should aspire to a higher level of application of good governance practices as recommended in the Code.

Application on a proportional basis is subject to legislative requirements.

4. Disclosure on application of King IV

The application regime for King IV is 'apply and explain' and refers to applying the principles and explaining how they are being effected.

All principles are phrased as aspirations and ideals that organisations should strive towards in their journey to achieve good governance outcomes. These aspirations and ideals are basic to good governance and *application* of principles is therefore assumed. The *explanation* that is required is a high level disclosure of the practices that have been implemented and the progress made in the journey towards giving effect to each principle.

> Explanation should be provided in the form of a narrative account. Reference to recommended or other practices applied should be incorporated in the narrative to support the explanation of how the principle is being effected. Specific disclosure recommendations are included with each principle of the King IV Code. These recommendations are intended as a guideline and starting point for disclosure on the particular principle. *The detail of information to be provided in the narrative should be guided by materiality and should enable stakeholders to make an informed assessment of the quality of the corporate governance of the organisation*.
>
> There is no need to disclose against each practice as to whether it has been implemented or not, as this is quantitative and not necessarily adding to the quality of disclosure. There is further no need to disclose against the outcome as it can be left to the user to draw inferences from the narrative provided.

King III consisted of 75 principles. The King III requirement was that "*all entities should apply the principles in the Code and consider the best practice recommendations in the Report. All entities should by way of explanation make a positive statement about how the principles have been applied or have not been applied. This level of disclosure will allow stakeholders to comment on and challenge the board on the quality of governance*". The main difference between the application regime of King III and King IV is that application or adoption of the principles is assumed in King IV. Furthermore, the 75 principles in King III have been replaced with 17 principles in King IV. Finally, while some of the principles in King III were actually best practices, King IV clearly differentiate principles and practices so that all of the principles result in good governance.

Attention is drawn to the recommendation in chapter 2: "*The governing body should oversee … integration of reports and integration of disclosure in substance and form and across various reporting media and platforms*." It falls within the discretion of the governing body to determine where the King IV disclosures will be made, either in the application register, and/or in the integrated annual report and/or in a sustainability or corporate citizen report. Duplication of King IV disclosures should be avoided. In order to do so, it is recommended that cross-referencing to other reports where King IV disclosures have been should be referred to in the application register. This is demonstrated in the specimen Application Register included in Part 7 of this Report.

King IV application register should be updated at least annually, formally approved by the governing body and published on accessible media and communication platforms.

5. Transition from King III to King IV

King IV replaces King III from the effective date. Some of the underpinning philosophy and key principles from King III have been summarised herein.

PART 4: KING IV ON A PAGE

GOVERNING BODY LEADERSHIP RESPONSIBILITIES

Strategy | **Policy** | **Oversight** | **Disclosure**

Principle 1.1: The governing body should set the tone and lead ethically and effectively.
Principle 1.2: The governing body should ensure that the organisation's ethics is managed effectively.
Principle 1.3: The governing body should ensure that the organisation is a responsible corporate citizen.

Ethics | Values | Culture | Corporate Citizenship

→ **ETHICAL CULTURE**

Principle 2.1: The governing body should lead the value creation process by appreciating that strategy, risk and opportunity, performance and sustainable development are inseparable elements.
Principle 2.2: The governing body should ensure that reports and other disclosures enable stakeholders to make an informed assessment of the performance of the organisation and its ability to create value in a sustainable manner.

Disclosure | Reporting | Risk And Opportunity | Sustainable Development | Performance | Core Purpose Triple Context | 6 Capitals
Strategy | Value Creation

→ **PERFORMANCE AND VALUE CREATION**

Principle 3.1: The governing body should serve as the focal point and custodian of corporate governance in the organisation.
Principle 3.2: The governing body should ensure that in its composition it comprises a balance of the skills, experience, diversity, independence and knowledge needed to discharge its role and responsibilities.
Principle 3.3: The governing body should consider creating additional governing structures to assist with the balancing of power and the effective discharge of responsibilities, but without abdicating accountability.
Principle 3.4: The governing body should ensure that the appointment of, and delegation to, competent executive management contributes to an effective arrangement by which authority and responsibilities are exercised.
Principle 3.5: The governing body should ensure that the performance evaluations of the governing body, its structures, its chair and members, the CEO and the company secretary or corporate governance professional result in continued improved performance and effectiveness.
Principle 4.1: The governing body should govern risk and opportunity in a way that supports the organisation in defining core purpose and to set and achieve strategic objectives.
Principle 4.2: The governing body should govern technology and information in a way that supports the organisation in defining core purpose and to set and achieve strategic objectives.
Principle 4.3: The governing body should govern compliance with laws and ensure consideration of adherence to non-binding rules, codes and standards.
Principle 4.4: The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the creation of value in a sustainable manner.
Principle 4.5: The governing body should ensure that assurance results in an adequate and effective control environment and integrity of reports for better decision-making.

Performance Evaluation | Remuneration | Risk and Opportunity | Assurance | Compliance | Technology | Board | Board Committees

→ **ADEQUATE AND EFFECTIVE CONTROL**

Principle 5.1: As part of its decision-making in the best interests of the organisation, the governing body should ensure that a stakeholder-inclusive approach is adopted, which takes into account and balances their legitimate and reasonable needs, interests and expectations.
Principle 5.2: The governing body of an institutional investor should ensure that the organisation responsibly exercises its rights, obligations, legitimate and reasonable needs, interests and expectations, as holder of beneficial interest in the securities of a company.

Stakeholder Inclusivity

→ **TRUST, GOOD REPUTATION AND LEGITIMACY**

GOVERNANCE OUTCOMES

PART 5: KING CODE ON CORPORATE GOVERNANCE FOR SOUTH AFRICA
CHAPTER 1: LEADERSHIP, ETHICS AND CORPORATE CITIZENSHIP

1.1 Ethical leadership

Principle 1.1: The governing body should set the tone and lead ethically and effectively.

Recommended Practices

1. Members of the governing body should in their decision-making and exercise of duties demonstrate the following individual and collective ethical characteristics:
   a. Independence: Members of the governing body should act with independence of mind in the best interests of the organisation. Conflicts of interest (whether actual or perceived) should be disclosed to the governing body in full detail at the earliest opportunity, and then managed as determined by the governing body subject to statutory requirements. Conflicts of interest that cannot be managed must be avoided.
   b. Inclusivity: Members of the governing body should consider and balance the legitimate and reasonable needs, interests and expectations of all stakeholders in their decision-making in the best interests of the organisation.
   c. Competence: Members of the governing body should individually and collectively assume responsibility for the continual development of their competence to govern effectively.
   d. Diligence: Members of the governing body should be diligent in performing their duties and devote sufficient time to the organisation's affairs to exercise well-considered judgement.
   e. Informed: Members of the governing body should, in order to discharge their duties, take steps to ensure that they have sufficient working knowledge of the organisation, its industry, the economic, social and environmental context in which it operates as well as of the significant applicable laws, rules, codes and standards. To that end the governing body should ensure that its members have, subject to following protocol established by the governing body, unrestricted access to professional advice and the organisation's information, records, documents, property, management and staff.
   f. Courage: Members of the governing body should have and exercise the courage to act with integrity and honesty in taking risk for reward in all decisions in the best interests of the organisation.
2. There should be disclosure of the mechanisms by which it is holding itself to account for ethical governance.

1.2 Organisation values, ethics and culture

Principle 1.2: The governing body should ensure that the organisation's ethics is managed effectively.

Recommended Practices

3. The governing body should set the example and tone for an ethical culture in the organisation.
4. The governing body should provide clear strategic direction on the management of the organisation's ethics.
5. The governing body should ensure that ethics values and norms are clearly articulated in the organisation's codes of ethics and conduct, and in its policies.
6. The governing body should ensure that ethics policy: -
   a. encompasses the relationship with both internal and external stakeholders, including the conduct of organisations within the supply chain, and
   b. addresses the particular ethical risk profile of the organisation.
7. The governing body should ensure that the necessary structures are in place to give effect to the organisation's ethics values and norms, including safe reporting mechanisms and appropriate oversight and resources for ethics management.
8. The governing body should oversee that there are processes in place to ensure that employees, business associates, contractors and suppliers are familiar with the organisation's ethics norms as set out in codes of ethics and conduct - for example, incorporating these in employment and supply contracts.
9. The governing body should oversee that adherence to the organisation's ethics norms by employees, business associates, contractors and suppliers is monitored and assessed periodically.
10. The governing body should oversee that recruitment processes, promotion criteria and performance evaluations of employees recognise adherence to ethics norms as set out in codes of ethics and conduct and that sanctions are in place for the contravention thereof.
11. There should be disclosure of:
    a. the structures and processes that have been put in place for ethics management
    b. key focus areas during the reporting period, and
    c. mechanisms for monitoring and assessing effectiveness.

1.3 Responsible corporate citizenship

Principle 1.3: The governing body should ensure that the organisation is a responsible corporate citizen.

Recommended Practices

12. The governing body should provide strategic direction for the organisation to be a responsible corporate citizen and to respond appropriately to the economic, social and environmental outcomes of its activities.

13. The organisation's corporate citizenship considerations should include the following:
    a. sustainable development
    b. human rights
    c. impact on communities in which the organisation conducts its activities and distributes its output
    d. protection of the natural environment and responsible use of natural resources
    e. fair labour practices
    f. fair and responsible remuneration
    g. employee wellbeing and development
    h. employee and public health and safety
    i. compliance with legislation related to economic, social and environmental responsibility
    j. prevention, detection and response to fraud and corruption
    k. economic transformation, including employment equity and broad-based Black economic empowerment
    l. fair treatment of customers
    m. fair competition with industry peers
    n. fair treatment of associates, suppliers and contractors as well as holding them to account on their responsible citizenship practices according to the organisation's supply chain code of conduct, and
    o. responsible tax policies.
14. The governing body should oversee that the organisation's performance as a corporate citizen is monitored against approved targets and assessed periodically.
15. There should be disclosure of:
    a. the structures and processes that have been put in place for managing corporate citizenship
    b. key focus areas during the reporting period, and
    c. mechanisms for monitoring and assessing effectiveness.

PART 5: KING CODE ON CORPORATE GOVERNANCE FOR SOUTH AFRICA CHAPTER 2: PERFORMANCE AND REPORTING

2.1. Strategy, implementation, performance

Principle 2.1: The governing body should lead the value creation process by appreciating that strategy, risk and opportunity, performance and sustainable development are inseparable elements.

Recommended Practices

1. The governing body should approve a strategy by which the core purpose of the organisation is identified and its short-, medium- and longer-term direction is set.
2. The strategy should steer choices and priorities towards the creation of value in a sustainable manner in the economic, social and environmental context in which the organisation operates.
3. When considering the strategy, the governing body should consider the following:
   a. risks and opportunities posed by the economic, social and environmental context that could affect the achievement of the organisation's stated purpose, its intended strategic objectives and its ability to create value in a sustainable manner
   b. utilisation and reliance on resources as represented by the various forms of capital, including: financial, manufactured, human, intellectual, social (including relational) and natural capitals
   c. the legitimate and reasonable needs, interests and expectations of stakeholders
   d. the organisation's ability to support strategy through resources, business structures and processes
   e. the *potential* effect (increase, decrease or transformation) of the organisation's operations on resources and relationships as represented by the various forms of capital and stakeholders, and
   f. the interconnectivity and inter-dependence of all of the above matters.
4. The governing body should oversee that policies and plans are developed to give effect to the approved strategy and that they:
   a. drive the deployment of resources, structures and processes
   b. define the course of action and scope or spheres within which decisions can be taken, and
   c. provide the criteria and measures against which the governing body can oversee management's performance.
5. Performance criteria should be:
   a. set measures across the whole of the economic, social and environmental context, and
   b. formulated by taking a holistic view of the measurement of the contribution of operating and functional units to overall performance, so that integrated decision-making and functioning are encouraged.
6. The organisation should continually assess and appropriately respond to the *actual* short-, medium- and long-term outcomes of its operations.
7. As part of its oversight of performance, the governing body should consider business rescue proceedings or other turnaround measures as soon as the organisational performance is distressed.
8. There should be reporting on performance as provided for under Principle 2.2.

2.2. Reports and disclosure

Principle 2.2: The governing body should ensure that reports and other disclosures enable stakeholders to make an informed assessment of the performance of the organisation and its ability to create value in a sustainable manner.

Recommended Practices

9. The governing body should provide strategic direction so that reports and disclosure inform on the performance of the organisation and its ability to create value in a sustainable manner.
10. The governing body should determine the reporting frameworks and standards to be applied taking into account legislative requirements, industry standards, the purpose of each report and its target audience.
11. Materiality of information for inclusion in reports should be determined by the governing body. This determination should be entity-specific and dependent on audience and time-frame, while including the following considerations:
    a. challenges and opportunities that may significantly affect the ability of the organisation to create value
    b. priority of relevant matters based on relative significance, and
    c. the particular information to be disclosed about material matters.[1]
12. The governing body should oversee:
    a. the integrity, also expressed as the reliability and usefulness, of all its reports
    b. integration of reports and disclosure in substance and form and across various reporting media and communication platforms.
13. The organisation should issue a report annually that presents material information in an integrated manner and that provides its users with a holistic, clear, concise and understandable presentation of the organisation's performance in terms of sustainable value creation in the economic, social and environmental context.
14. Regardless of reporting frameworks and standards adopted, the organisation should as a minimum deal with the following in its integrated annual report[2]:
    a. scope and basis for determining materiality of information
    b. overview of the context within which the organisation operates
    c. the formal strategy by which the organisation's core purpose is identified and its longer-term direction set
    d. critical dependencies, challenges and opportunities that materially affect the organisation's achievement of its core purpose and strategic objectives, as well as how these factors are connected and inter-dependent
    e. overview of the business structures and processes that support delivery of strategy
    f. the response to changes in the internal and external environment in terms of products and services offered, and related innovation
    g. positive and negative outcomes of business activities and operations
    h. performance in terms of the stakeholder value that it has delivered or diminished, and of trade-offs among stakeholder interests

   i. the extent to which remuneration and incentives have been aligned to performance and sustainable value creation, and
   j. the organisation’s ability to maintain the creation of value in a sustainable manner.

15. The governing body should ensure that the integrated annual report is supported with more detailed reports, as guided by an assessment of stakeholders’ information needs and made available through publicly accessible media and communication platforms.

16. The governing body should ensure ongoing disclosure of pertinent organisational information, including through publicly accessible media and communication platforms:
   a. disclosure required in terms of this Code
   b. governance and management structures
   c. integrated annual reports and annual financial statements
   d. JSE and other public announcements, and
   e. notices of meetings of shareholders and any accompanying documents.

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[1] The International <IR> Framework”, The International Integrated Reporting Council, Guiding Principles 3.18, p.
[2] Adapted from The International <IR> Framework”, The International Integrated Reporting Council

PART 5: KING CODE ON CORPORATE GOVERNANCE FOR SOUTH AFRICA
CHAPTER 3: GOVERNING STRUCTURES AND DELEGATION

3.1 Role of the governing body

Principle 3.1: The governing body should serve as the focal point and custodian of corporate governance in the organisation.

Recommended practices

1. The governing body should serve as the focal point and custodian of corporate governance in the organisation. This broad leadership role includes:
   a. providing direction and *strategy*
   b. giving effect to strategy by approving *policy,* including plans, frameworks, structures and procedures
   c. providing *oversight* of implementation, and
   d. demonstrating accountability and transparency through *disclosure*.
2. The governing body should ensure that its role, responsibilities and membership requirements are documented in a charter that guides and drives its effective functioning.
3. The responsibilities of the governing body should include the following in relation to the organisation, as expressed in the principles of this Code:
   a. Ethics
      i. Setting the tone and lead, ethically and effectively.
      ii. Ensuring that the organisation's ethics are managed effectively.
      iii. Ensuring that the organisation is a responsible corporate citizen.
   b. Performance and value creation
      i. Leading the value creation process by appreciating that strategy, risk and opportunity, performance and sustainable development are inseparable elements.
      ii. Ensuring that reports and other disclosures enable stakeholders to make an informed assessment of the performance of the organisation and its ability to create value in a sustainable manner.
   c. Governing body structures and delegation
      i. Ensuring that in its composition, the governing body comprises a balance of the skills, experience, diversity, independence and knowledge needed to discharge its role and responsibilities.
      ii. Considering creating additional governing structures to assist with the balancing of power and the effective discharge of responsibilities, but without abdicating accountability.
      iii. Ensuring that the appointment of, and delegation to, competent executive management results in the effective exercise of authority and responsibility.
      iv. Ensuring that performance evaluations of the governing body, its structures, its chair and members, the CEO and the company secretary or corporate governance professional result in continued improved performance and effectiveness.

d. Functional governance areas
   i. Governing risk and opportunity to support the organisation in defining core purpose and to set and achieve strategic objectives.
   ii. Governing technology and information to support the organisation defining core purpose and to set and achieve strategic objectives.
   iii. Governing compliance with laws and ensuring consideration of adherence to non-binding rules, codes and standards.
   iv. Ensuring that the organisation remunerates fairly, responsibly and transparently so as to promote the creation of value in a sustainable manner.
   v. Ensuring that assurance results in an adequate and effective control environment and integrity of reports for better decision-making.

e. Stakeholder relationships
   i. Ensuring that a stakeholder-inclusive approach is adopted, which takes into account and balances their legitimate and reasonable needs, interests and expectations.
   ii. Ensuring that the organisation, if an institutional investor, responsibly exercises its rights, obligations, legitimate needs, interests and expectations.

4. The governing body should ensure that the reports that it receives can be used to establish a basis for rational decision-making and execution of duties, including that:
   a. reports contain sufficient pertinent and material information
   b. standard reports are provided against pre-determined performance objectives or other relevant criteria, and
   c. reports have been assured by the line(s) of assurance as is appropriate for its purpose.
5. The governing body should determine the protocol to be followed if it or any of its members needs to obtain independent, external professional advice at the cost of the organisation, on matters within the scope of their duties.
6. The charter of the governing body should be regularly reviewed so that it remains a relevant reference point for effective functioning.
7. There should be disclosure of the governing body's role and responsibilities, key areas of focus during the reporting period and how these matters were addressed.

3.2 Composition of the governing body

Principle 3.2: The governing body should ensure that in its composition it comprises a balance of the skills, experience, diversity, independence and knowledge needed to discharge its role and responsibilities.

Composition

Recommended practices

8. The governing body should provide strategic direction for its composition to be balanced.
9. When determining the appropriate number of members of the governing body, these factors should be considered:
   a. evolving circumstances, the needs of the organisation and the nature of its business

b. the appropriate mix of executive, non-executive and independent members
c. the need to have sufficient and qualified members to serve on committees of the governing body
d. the need to secure a quorum at meetings
e. regulatory requirements
f. collective skills, knowledge and experience, and
g. diversity.

10. The chief executive officer (CEO) and at least one other executive should be appointed to the governing body.
11. To facilitate better decision-making, the composition of the governing body should be diverse in terms of academic qualifications, expertise, skills, experience, nationality, age, race and gender.
12. Staggered rotation of the members of the governing body should be implemented to retain valuable skills and maintain continuity of knowledge and experience, whilst also introducing members with new ideas and expertise.
13. The governing body should establish a succession plan for its own members, which should include the identification, mentorship and development of future candidates.
14. The governing body should have a majority of non-executive members, a majority of whom should ideally be independent. This increases the likelihood that its decisions will serve the best interests of the organisation and not specific other interests.

Appointment procedures

Recommended practices

15. Procedures and recommendations for appointment to the governing body should be formal and transparent.
16. Appointments should be considered by the governing body as a whole, assisted by its committee responsible for nominations.
17. Before recommending a candidate for appointment or election, the governing body should consider:
    a. the collective skills, knowledge and experience required on the governing body
    b. the apparent ethical integrity and reputation of the candidate
    c. the existence of actual or perceived conflicts of interest
    d. the skills, knowledge and experience of the candidate
    e. the capacity of the candidate to dedicate the necessary time to discharge duties, and
    f. diversity.
18. A candidate for appointment or election as a non-executive member should be requested to provide details of other commitments and a statement of time available to fulfil responsibilities. This should be balanced against the advantages obtained from an individual serving on more than one governing body, or on more than one committee of a governing body, or both.
19. Prior to their appointment, candidates' backgrounds should be investigated.
20. After a member has retired on rotation, the governing body should recommend re-election, only after taking into consideration past performance and contribution, in addition to the considerations in paragraph 17.

21. A brief CV of each candidate standing for election at the annual general meeting (AGM) should accompany the notice of the AGM, together with a statement by the governing body on whether it supports election or re-election.
22. The terms and conditions of appointment as member of the governing body should be formalised in a letter of appointment.
23. The governing body should oversee that incoming members are inducted so they are able to make the maximum contribution as quickly as possible.
24. New members of the governing body with no or limited governing experience should be developed through mentorship and training.
25. A programme of professional development and regular briefings on legislative and regulatory developments, risks and changes in the environment, relevant to the business of the organisation, should be adopted for members of the governing body.

Independence

26. All members of the governing body, whether they are classified as executive, non-executive or independent non-executive, have a duty to act with independence of mind in the best interests of the organisation.
27. Non-executive members of the governing body classified as “independent” would need to be regarded as such by a reasonable and informed third party. This classification refers to the absence of any interest, position, association or relationship which is likely to unduly influence or cause bias in decision-making. Below are indicators that may lead to a conclusion of a lack of independence. It is not an exhaustive list, nor does it detract from the obligation of the governing body to consider the combined effect of all relevant factors on a substance-over-form basis, when making an assessment of independence for purposes of classification:
    a. being a shareholder, or an officer or employee of a shareholder, who has the ability to control or significantly influence management or the governing body
    b. being a shareholder where the holding is material to the personal wealth of the member of the governing body
    c. having been in the employ of the organisation or the group in any executive capacity during the preceding three financial years
    d. being a member of the immediate family of an individual who is, or has been during the preceding three financial years, employed by the organisation or the group in an executive capacity
    e. having been the auditor responsible for performing the statutory audit for the organisation, or a key member of the audit team of the external audit firm, during the preceding three financial years
    f. having been an external legal adviser for an extended period during the preceding three financial years
    g. being a significant professional adviser to the organisation or the group, other than as a member of the governing body
    h. being a member of the governing body or an executive of a material customer of, or supplier to, the organisation, or
    i. being entitled to remuneration contingent on the performance of the organisation.

28. Independent non-executive members of the governing body may continue to serve, classified as independent, for longer than nine years if, after an assessment by the governing body, there are no relationships or circumstances likely to affect, or reasonably be perceived to affect, the member's objectivity and judgement.
29. There should be disclosure of the following with regards to the governing body:
    a. its composition
    b. classification of each member as executive or non-executive
    c. classification of non-executive members as independent or not; and, if classified as independent despite some indicators of lack of independence as set out above, the reasons for this classification
    d. the qualifications and experience of members
    e. the mix of skills, experience, diversity, independence and knowledge of the organisation and its sector that that the governing body currently has in its membership, or is looking to achieve
    f. the length of service and age of members
    g. other significant positions of each member
    h. where a member has been serving for longer than nine years, details of the assessment and findings regarding independence
    i. reasons for removal, resignation or retirement of members from the governing body, and
    j. the number of meetings held, and attendance at those meetings.

Chair of the governing body

Recommended practices

30. The governing body should elect an independent non-executive member as chair to provide leadership.
31. Should the chair not be independent the governing body should appoint a lead independent non-executive member to replace the chair where there is a conflict.
32. The chair's leadership should set the tone for ethical and effective decision-making and execution of duties. The chair's role and functions should be articulated and documented in the board charter or elsewhere.
33. The CEO of the organisation should not also chair of the governing body and the retired CEO should not become the chair of the governing body until three complete years have passed after the end of the CEO's tenure as an executive member.
34. The chair, together with the governing body, should determine the number of outside governing positions that the chair is allowed to hold, taking into account the relative size and complexity of the other organisations.
35. Regarding the chair's service on other committees of the governing body:
    a. The chair should not be a member of the audit committee unless shareholders agree.
    b. The chair may be a member of the committee responsible for remuneration but should not be its chair.
    c. The chair should be a member of the committee responsible for nominations to the governing body and may also be its chair
    d. The chair may be a member of the committee responsible for risk and may also be its chair.

   e. The chair may be a member of the social and ethics committee and may also be its chair.

36. The board should ensure there is a succession plan for the chair.

See principle 3.5 which deals with the performance evaluation of the chair.

37. There should be disclosure on the independence of the chair.

3.3 Committees of the governing body

Principle 3.3: The governing body should consider creating additional governing structures to assist with the balancing of power and the effective discharge of responsibilities, but without abdicating accountability.

General

Recommended practices

38. The governing body should consider and direct the establishment of standing or *ad hoc*-committees and delegation of responsibilities to these committees to assist it in fulfilling its obligations.
39. Subject to law and considerations of proportionality, the governing body should consider establishing committees to assist in the areas set out below, and in additional areas as deemed necessary:
    a. audit
    b. risk and opportunity
    c. remuneration
    d. nomination, and
    e. social and ethical outcomes.
40. The terms of reference of each committee should, as a minimum, cover the following:
    a. composition and rotation of membership
    b. overall role and associated responsibilities
    c. delegated authorities, including the extent of power to make decisions and recommendations
    d. tenure
    e. resources and access to information, and
    f. meeting procedures.
41. The roles and responsibilities, as well as the membership, of committees as set out in the terms of reference should be considered holistically by the governing body and co-ordinated so that:
    a. the functioning of committees is integrated, and effective collaboration and support are in place with minimal overlap or fragmentation, and
    b. there is a distribution and balance of power in how membership across governing body structures is composed so that no individual(s) has the ability to dominate decision-making and there is not undue reliance on a particular individual(s).
42. The governing body should ensure that each committee's members collectively has the skills and capacity to fulfil its mandate.
43. Members of the executive and senior management should be invited to attend committee meetings or part thereof to provide information and insights in their areas of responsibility.

44. The governing body should determine the protocol to be followed if its committees or any member of its committees needs to obtain independent, external professional, expert advice at the cost of the organisation.
45. Every member of the governing body is entitled to attend any committee meeting as an observer. However, unless that member is also a member of the committee, the member is not entitled to participate without the consent of the chair; does not have a vote; and is not entitled to fees for such attendance, unless otherwise agreed by the governing body and shareholders.
46. The terms of reference of committees should be regularly reviewed and any changes should be approved by the governing body.
47. Any delegation to a committee or a governing body member will not of itself constitute discharge of the governing body's accountability. The governing body needs to ensure oversight of delegated authority.
48. A committee of the governing body should ensure that the reports it receives establish a basis for rational decision-making and execution of duties, including that:
    a. reports are complete in that they contain pertinent and material information
    b. standard reports are provided against pre-determined performance objectives or other criteria, and
    c. reports have been assured by the appropriate line(s) of assurance as is appropriate for its purpose.
49. The should be disclosure regarding each committee as follows:
    a. role and functions
    b. composition
    c. any external advisers who regularly attend committee meetings
    d. key areas of focus, and
    e. whether the committee has satisfied its responsibilities for the year in accordance with the terms of reference.

Audit Committees

Recommended practices

50. For some companies, an audit committee is a statutory requirement. However, as a matter of good practice, the governing body of any organisation which issues audited financial statements should establish an audit committee. Its role should be to provide independent oversight of:
    a. audit and assurance requirements
    b. independence of the auditor and other assurance providers
    c. audit quality, and
    d. integrity, also known as the reliability and usefulness of reports.
51. The audit committee carries ultimate decision-making power and accountability for statutory duties. If differences of opinion should arise between the governing body and the audit committee where the audit committee's statutory functions are concerned, the audit committee's view prevails.
52. In addition to being a statutory committee, the audit committee may serve as a committee of the governing body with assigned responsibilities beyond its statutory duties. The governing body is ultimately accountable on such matters.
53. Where the governing body assigns the oversight of risk governance to the audit committee, the audit committee's responsibility should be identical to that of a separate risk committee.

54. Regardless of whether oversight of risk has been assigned to the audit committee, the audit committee should in any case oversee financial and other reporting risks.
55. The audit committee should consist of at least three members. All members should be independent non-executive members of the governing body.
56. The governing body should appoint an independent non-executive member as the chair of the audit committee.
57. The audit committee should periodically meet with assurance providers without management present, so as to create an opportunity for views and concerns to be raised that may not be appropriate in an open forum.

See Principle 3.5 which deals with the performance evaluation of governing body committees.

58. In addition to the general disclosure regarding committees of the governing body in terms of this Code and its statutory disclosures, there should be disclosure on:
    a. whether the audit committee is satisfied that the auditor is independent of the organisation, with the disclosure having reference to:
        i. the nature and extent of non-audit services rendered
        ii. audit firm tenure and, in the event of the audit firm having been involved in a merger or acquisition, the tenure of its predecessor, and
        iii. audit partner rotation and significant management changes during the course of audit firm tenure.
    b. the arrangements in place for the finance function and internal audit, and the audit committee's views on their effectiveness.
    c. the arrangements in place for a combined assurance model, and the committee's views on its effectiveness
    d. the audit committee's views on the effectiveness of internal financial controls and the nature and extent of material weaknesses in the design, implementation or execution of internal financial controls that resulted in material financial loss, fraud, corruption or material errors.
    e. significant matters that the audit committee considered in relation to the external assurance over reports, and how these were addressed by the committee.

Committee responsible for nominations of members of governing body

Recommended practices

59. The governing body should consider establishing a committee for nominations, to make recommendations on the appropriate composition, succession, performance and effective functioning of the governing body and its committees.
60. All members of the committee for nominations should be non-executive members of the governing body, and the majority should be independent.

See Principle 3.5 which deals with the performance evaluation of committees of the governing body.
See paragraph 49 above on disclosure in respect of committees of the governing body.

Committee for risk and opportunity governance

Recommended practices

61. The governing body should consider establishing a committee to assist it with the governance of risk and opportunity. This committee's role is to:
    a. advise the governing body on the nature and extent of the risks and opportunities facing the organisation, in the context of the organisation's core purpose and strategic objectives, and
    b. oversee implementation of the risk and opportunity policy and framework, as well as the internal control framework and other responses to risk and opportunity.
62. If the committees for audit and risk are separate, the governing body should consider ensuring overlap of membership for better functioning. If the roles are combined in a single committee, the meeting agendas to address audit, and risk and opportunity, should be separate.
63. The committee for risk and opportunity should include at least three members of the governing body who collectively have adequate and appropriate knowledge, skills and experience in governing risk and opportunity. This committee should have a majority of non-executive members of the governing body.

See Principle 3.5 which deals with the performance evaluation of committees of the governing body.

See paragraph 49 above on disclosure in respect of committees of the governing body.

Committee responsible for remuneration

Recommended practices

64. The governing body should consider establishing a committee for remuneration, to devise and recommend a policy that results in fair, responsible and transparent remuneration.
65. All members of the committee for remuneration should be non-executive members of the governing body, with the majority independent.
66. The committee for remuneration should be chaired by an independent non-executive member.
67. The chair of the governing body should not be chair of the remuneration committee.

See Principle 3.5 which deals with the performance evaluation of committees of the governing body.

See paragraph 49 above on disclosure in respect of committees of the governing body.

Social and ethics committee

Recommended practices

68. For some companies, the establishment of a social and ethics committee is a statutory requirement. However, the governing body of any organisation not so obliged should consider establishing a social and ethics committee as a matter of good practice, to uphold, monitor and report on organisational ethics, responsible corporate citizenship, sustainable development and stakeholder inclusivity.

69. The responsibilities of the social and ethics committee should include its statutory duties (if applicable) and any other responsibilities assigned by the governing body.
70. The social and ethics committee should consist of at least three members of the governing body or prescribed officers, at least one of whom should be a non-executive director.

See Principle 3.5 which deals with the performance evaluation of committees of the governing body.

See paragraph 49 above on disclosure in respect of committees of the governing body.

3.4 Delegation to management

Principle 3.4: The governing body should ensure that the appointment of, and delegation to, competent executive management contributes to an effective arrangement by which authority and responsibilities are exercised.

CEO appointment and role

Recommended practices

71. The governing body should appoint the CEO.
72. The CEO takes responsibility for leading the implementation of approved strategy and policy, and serves as the chief link between management and the governing body.
73. The role and responsibilities of the CEO should be formalised, and the governing body should evaluate performance against these.
74. The CEO should not be a member of the remuneration, audit or nomination committees, but should attend by invitation part or the whole of any meeting if needed to contribute pertinent information.
75. The CEO and the governing body should agree on whether the CEO takes up additional positions, including membership of other governing bodies outside the organisation. Time constraints and potential conflicts of interests should be considered, but balanced against the opportunity for professional development.
76. The governing body should ensure that there is a succession plan for the CEO position.

See principle 3.5 which deals with the performance evaluation of the CEO.

77. There should be disclosure of:
    a. additional commitments of the CEO, including membership of other governing bodies outside the organisation, and
    b. whether a succession plan is in place for the CEO position, in terms of emergency succession and over the longer term.

Delegation

Recommended practices

78. The governing body should provide direction on the powers reserved for itself, and those delegated to management, without abdicating accountability.
79. The governing body should ensure that it approves a delegation-of-authority framework that articulates its direction on reservation and delegation of power.
80. The governing body should ensure that it is consulted on executive appointments other than the CEO, with the CEO finally approving executive appointments.
81. The governing body should oversee that the delegation-of-authority framework is implemented.
82. The governing body should oversee that responsibilities for functional areas such as ethics, risk and opportunity, technology and information, compliance, human resources, assurance, finance, stakeholder relationships and others, are:
    a. managed with the necessary experience, expertise and qualifications, and at the appropriate level of seniority, to discharge the role effectively and with the necessary gravitas
    b. appropriately resourced, and
    c. sufficiently defined so that there is role clarity, but at the same time providing for structures that facilitate integrated decision-making and execution.
83. The governing body should ensure that the competence and ability of management of functional areas are assessed regularly, and where necessary, due to the level of technical knowledge required, supplemented by an independent assessment of skills and competence.
84. The governing body should oversee that there is a succession plan for executive and senior management.
85. There should be disclosure of:
    a. the powers that the governing body has reserved for itself, and
    b. the organisation's executive and senior management structure, including the role and relevant qualifications, skills and experience of each.

Company secretary or corporate governance professional

Recommended practices

86. The governing body should ensure that it has access to the services of a company secretary or corporate governance professional, for guidance and direction on governance, on the legal duties of members of the governing body and its structures, and to support and co-ordinate the functioning of the governing body and its committees.
87. Appointing a company secretary is a legal requirement for some companies in terms of the Companies Act. However, the governing body of an organisation exempt from this requirement should, as a matter of good practice, consider appointing a corporate governance professional to fulfil the role that is ascribed to a company secretary in the Companies Act.
88. The governing body, should subject to law and considerations of proportionality, determine whether to outsource, make a part-time appointment or appoint a juristic person to provide company secretarial or professional corporate governance services.

89. The governing body should finally approve the appointment and removal of the company secretary or corporate governance professional.
90. The governing body should apply its mind to appointing as company secretary or corporate governance professional, a person with the necessary experience, expertise and qualifications, as well as at the appropriate level of seniority to discharge the role effectively and with the necessary gravitas.
91. The company secretary or corporate governance professional should be a trusted advisor and functionary of the governing body, but should maintain an arms-length relationship with the governing body and its members, and therefore should not be a member of the governing body.
92. The company secretary should report functionally to the chair of governing body and administratively to the CEO.
93. The responsibilities of the company secretary or corporate governance professional should include the statutory duties, if applicable, as well as other responsibilities assigned by the governing body.

See principle 3.5 which deals with the performance evaluation of the company secretary or corporate governance professional.

94. There should be disclosure of the arrangements in place for access to company secretarial or professional corporate governance services, as well as the mechanisms for assessing effectiveness.
95. The company secretary or corporate governance professional should formally approve the disclosure of membership and the key roles and responsibilities of the governing body and its structures, as well as the number of meetings and attendance at each meeting.

3.5 Performance evaluations

Principle 3.5: The governing body should ensure that the performance evaluations of the governing body, its structures, its chair and members, the CEO and the company secretary or corporate governance professional result in continued improved performance and effectiveness.

Recommended practices

96. The governing body should provide clear direction on evaluation of performance.
97. The governing body should appoint an independent non-executive member to lead the evaluation of the chair's performance.
98. The governing body should evaluate the performance of the CEO, and of the company secretary or corporate governance professional, at least once a year.
99. The governing body should determine the methodology and frequency of evaluations of the performance of the governing body, its structures, its chair and members. These performance evaluations should be conducted at least every three years.
100. There should be disclosure of:
    a. arrangements for the evaluation the performance of the governing body, its structures, its chair and members, the CEO and company secretary or corporate governance professional
    b. whether such performance evaluations have been undertaken during the reporting period, and the reason for any exceptions

c. whether the performance evaluations were performed in-house or facilitated externally, with reasons if necessary
d. an overview of evaluation results and remedial actions, and
e. the governing body's views on whether the evaluation process is effective in improving performance.

PART 5: KING CODE ON CORPORATE GOVERNANCE FOR SOUTH AFRICA

CHAPTER 4: GOVERNANCE FUNCTIONAL AREAS

4.1 Risk and opportunity governance

Principle 4.1: The governing body should govern risk and opportunity in a way that supports the organisation in defining core purpose and to set and achieve strategic objectives.

Recommended practices

1. The governing body should provide clear strategic direction for the taking and managing of risk and opportunity.
2. Consideration of risk and opportunity should be integrated by the governing body in its decision- making and execution of duties.
3. The governing body should approve the nature and extent of the risks and opportunities that the organisation should be willing to take, and particularly:
   a. the risk and opportunity appetite, namely the propensity to take appropriate levels of risk and opportunity in pursuit of strategic objectives, and
   b. the limit of the potential loss that the governing body is prepared and has the capacity to tolerate.
4. Approval by the governing body of the nature and extent of the risks and opportunities to be taken in the pursuit of its strategic objectives should be a dynamic process, to be reviewed periodically and in response to changes in the risk –for-reward analyses.
5. The governing body should ensure that it approves policy that articulates its strategic direction on taking and managing risk and opportunity.
6. The policy should provide for the adoption of the appropriate standards and framework to give effect to the policy.
7. The governing body should delegate to management responsibility for implementing policy on enterprise-wide risk and opportunity management, and for embedding it into the day-to-day, medium and long-term decision-making, activities and culture of the organisation.
8. The governing body should oversee the adequacy and effectiveness of risk and opportunity management, including:
   a. capturing of opportunities offered by developments in the external environment
   b. implementation of a fraud risk management framework that prevents, detects and responds incidents of fraud
   c. processes to understand and deal with complexity and hidden interdependencies in the external environment that could affect the organisation
   d. assessment of the vulnerabilities of the organisation and its critical dependencies on its capitals and relationships, and
   e. assessment of plans to withstand and recover from volatility and acute shocks and the capacity to build resilience against risks.

9. The governing body should oversee that a formal review is conducted periodically of the risk and opportunity management function as indicated by the adequacy and effectiveness of internal control systems and other risk and opportunity responses.
10. There should be disclosure of the nature and extent of the risks and opportunities the organisation is willing to take, including how this is communicated to the organisation and embedded into its day-to-day, medium and long-term decision making, activities and culture.
11. There should be disclosure of:
    a. arrangements for managing risk and opportunity
    b. key focus areas during the reporting period
    c. mechanisms for monitoring and assessing adequacy and effectiveness of risk and opportunity management, and
    d. how past performance, current operations and future strategic objectives are affected by uncertainties.

4.2 Technology and information governance

Principle 4.2: The governing body should govern technology and information in a way that supports the organisation in defining core purpose and to set and achieve strategic objectives.

Recommended practices

12. The governing body should provide strategic direction for management of technology and information.
13. The governing body should approve policy that articulates strategic direction on the use of technology and information.
14. The policy should provide for adoption of the appropriate standards and framework to give effect to the strategy.
15. The governing body should delegate to management responsibility for implementing policy on enterprise-wide technology and information management, and for embedding it into the day-to-day, medium and long-term decision making, activities and culture.
16. The governing body should oversee the adequacy and effectiveness of technology and information management, including:
    a. exploitation of opportunities offered by technology and digital developments
    b. ethical and responsible use of technology and information
    c. information management that creates and enhances intellectual capital in the organisation
    d. integration of people, technologies, information and processes in the digital business value chain
    e. assessing return on investment
    f. risk oversight of outsourced services and the supply chain for the acquisition of goods and services, and
    g. compliance with relevant laws.
17. The governing body should oversee the management of cyber-security risk, including:
    a. integration of cyber-security risk into risk and opportunity management

b. allocation of responsibilities in relation to cyber-security risk, and regular assessment of the competence and capability of those responsible
c. a cyber-security plan that includes technical tools necessary for defence, and supporting interventions such as creating a culture where employees are alert to cyber-security risk and proactive in raising concerns
d. monitoring of intelligence, including critical events and incidents, to assist with preventing and detecting cyber breaches
e. provision for business resilience, continuity and disaster recovery through a response and recovery plan, and
f. continual revision of cyber-security policy based on external developments.

18. The governing body should periodically carry out a formal review the adequacy and effectiveness of the organisation's technology and information function.
19. There should be disclosure of:
    a. structures and processes for technology and information management
    b. key focus areas during the reporting period
    c. mechanisms for monitoring and assessing adequacy and effectiveness of technology and information management, and
    d. how past performance, current operations, and future strategic objectives are affected by digital development.

4.3 Compliance governance

Principle 4.3: The governing body should govern compliance with laws and ensure consideration of adherence to non-binding rules, codes and standards.

Recommended practices

20. The governing body should provide strategic direction for compliance.
21. The governing body should approve policy that articulates its strategic direction on compliance.
22. The policy should provide for adoption of the appropriate standards and framework to give effect to the policy.
23. The governing body should delegate to management responsibility for implementing policy on enterprise-wide compliance management and for embedding it into the day-to-day, medium and long-term decision making, activities and culture.
24. The governing body should oversee management of compliance with laws and adherence to non-binding rules, codes and standards, and specifically the following:
    a. compliance is understood not only for the obligations it creates, but also for the rights and protections that it affords
    b. compliance management takes a holistic view of how applicable laws, non-binding rules, codes and standards relate to one another

c. management has strategic relationships with regulators and professional bodies, in order to understand the environment and trends, while creating the ability to influence that environment, and
d. compliance management is responsive to changes in the regulatory environment.

25. The governing body should periodically undertake a formal review the adequacy and effectiveness of the organisation's compliance function.

26. There should be disclosure of:
   a. structures and processes for compliance management
   b. key focus areas during the reporting period, and
   c. mechanisms for monitoring and assessing adequacy and effectiveness of compliance.

27. There should be disclosure of material or repeated regulatory penalties, sanctions or fines for contraventions of, or non-compliance with, statutory obligations - whether imposed on the organisation, or on members of the board or officers.

4.4 Remuneration governance

Principle 4.4: The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the creation of value in a sustainable manner.

Remuneration policy

Recommended Practices

28. The governing body should provide strategic direction for fair, responsible and transparent remuneration on an enterprise-wide basis.

29. The governing body should approve policy that articulates and gives effect to its strategic direction on fair, responsible and transparent remuneration.

30. The remuneration policy should be designed to attract, motivate, reward and retain high-quality talent and support delivery on strategy without encouraging undue risk taking.

31. The remuneration policy for executive members of the board and prescribed officers should be fair and responsible in the context of overall employee remuneration.

32. The remuneration policy should address all components of remuneration, including:
   a. base salary, financial and non-financial benefits
   b. variable remuneration, including:
      i. short- and long-term incentives (including deferrals)
      ii. loss of office payments
      iii. recruitment and retention payments
      iv. any other commissions and allowances, and
   c. the structuring of the fees of non-executive members of the governing body.

33. The governing body should oversee that the implementation of the remuneration policy results in the following:
   a. attracting, motivating, rewarding and retaining talent
   b. linking variable remuneration with both organisational and individual employee performance

c. measuring variable remuneration in relation to sustainable value created across the whole of the economic, social and environmental context; and in accordance with enhancement or diminishment across the capitals that the organisation uses or affects.

34. The governing body should oversee that the social and ethics committee, if it exists, reviews fair and responsible executive remuneration practices in the context of overall employee remuneration.

35. The governing body should oversee that there is regular dialogue with shareholders, to create and maintain a mutual understanding of what performance and value creation means, in order to properly evaluate the remuneration policy.

Remuneration report

36. The governing body should ensure that remuneration is reported on in three parts: (i) background statement; (ii) an overview of the main provisions of the organisation-wide policy on remuneration; and (iii) an implementation report which contains details of all remuneration and benefits awarded to individual members of the governing body and prescribed officers during the reporting period.

37. The *background statement* should briefly provide context for remuneration considerations and decisions, with reference to:
   a. internal and external factors that influenced remuneration
   b. the focus areas of the remuneration committee, and any substantial changes to the remuneration policy
   c. the opinion of the remuneration committee on whether implementation of the policy achieved stated objectives, and
   d. future considerations.

38. The brief overview of the main provisions of the *remuneration policy* should include:
   a. the high-level principles in accordance with which remuneration is determined.
   b. for executive members of the governing body and prescribed officers:
      i. the elements and design principles informing the remuneration system
      ii. details of obligations in employment contracts which could give rise to remuneration payments or payments for loss of office
      iii. illustration of the application of remuneration policy under different performance scenarios.
   c. in respect of employees other than executive members of the governing body and prescribed officers, a high-level overview of the elements and design principles informing the remuneration.
   d. a statement of how fairness and responsibility in the context of overall employee remuneration was taken into account when determining remuneration of executive members of the governing body and prescribed officers.
   e. in respect of non-executive directors, the basis of computation of fees
   f. justification of benchmarks.
   g. reference to an electronic link to the full policy for public access.

39. The *implementation report* in the annual financial statements should include all of the following:
   a. the total remuneration paid and accrued to each executive member of the governing body and each prescribed officer, including basic salary, benefits, short-term incentives (including those

deferred), loss of office payments, other allowances and long-term incentives, all reflected at fair value.

b. details of deferred short-term incentives and long-term incentives awarded but not yet paid or vested at the end of the financial year in respect of each executive member of the governing body and prescribed officer.
c. awards realised and paid to each executive member of the governing body and prescribed officer from deferred short term incentives and long-term incentives.
d. the links between variable remuneration awarded and performance, in terms of sustainable value created across the economic, social and environmental context; or in terms of the enhancement or diminution across all capitals that the organisation uses or affects.
e. whether remuneration consultants have been used, and their relationship to the organisation and members of the governing body or prescribed officers.

Voting on remuneration (only applicable to companies)

40. The basis for computation of the *fees of non-executive directors* of companies must be submitted for a special resolution for approval by shareholders within the two years preceding payment.
41. A resolution for the adoption by shareholders of the *remuneration policy* by a non-binding advisory vote should be tabled every two years, or whenever a change to the policy is approved by the board, or whenever the policy was not adopted by a vote of at least 75% of the voting shares the year before.
42. In addition, a resolution for the adoption by shareholders of the remuneration *implementation report* by a non-binding advisory vote should be tabled every year.
43. In the event that either the remuneration policy or the implementation report is not adopted by a vote of at least 75% of the voting shares, the remuneration committee should be proactive in taking steps to address shareholders' concerns. The remuneration committee should ensure that there is disclosure in the following year on the steps taken, nature of engagement with shareholders and the outcomes.
44. When evaluating the performance of the remuneration committee, and prior to recommending re-appointment of directors who are serving on the remuneration committee, the board should take into consideration the results of non-binding advisory votes on the adoption of the remuneration policy or its implementation, as well as the extent and nature of the steps taken to address shareholders' concerns.

4.5 Assurance

Principle 4.5: The governing body should ensure that assurance results in an adequate and effective control environment and integrity of reports for better decision-making.

Combined assurance model

Recommended Practices

45. The governing body should delegate to the audit committee to provide direction for the use of a combined assurance model to achieve the following objectives:
    a. adequacy and effectiveness of the internal control environment

b. the integrity of information used for reporting and decision-making.

46. The governing body should delegate to the audit committee the responsibility for establishing and overseeing a combined assurance model that includes the following lines of assurance:
   a. as first line of assurance: line functions that own and manage risk and opportunity
   b. as second line of assurance: specialist functions that facilitate and oversee risk and opportunity arrangements, such as enterprise-wide risk and opportunity management and compliance
   c. as third line of assurance: internal assurance providers that provide objective assurance such as internal audit, internal forensic examiners, fraud examiners and auditors, safety and process assessors and statutory actuaries
   d. as fourth line of assurance: external assurance providers such as external audit, sustainability and environmental auditors or regulatory inspectors, external actuaries and external forensic examiners, and fraud examiners and auditors, and
   e. as fifth line of assurance: the governing body, audit or other committees.
47. The audit committee should oversee that implementation of the combined assurance model results in combining, co-ordinating and aligning assurance activities across the various lines of assurance, so that assurance has the appropriate depth and reach.
48. The audit committee should oversee that the scope of combined assurance is informed by the risks and opportunities that materially affect the ability of the organisation to create value, and addressed as follows:
   a. the relevant risks and opportunities should be mapped to the line(s) of assurance required and the specific assurance provider(s) within each line of assurance, and
   b. mapping should take into consideration the intended user(s) and use(s) of the information assured.

Refer to Chapter 3 for recommendations on disclosure by the audit committee in relation to the combined assurance model.

Internal audit

Recommended practices

49. The governing body should delegate to the audit committee to provide strategic direction for independent and objective assurance on the adequacy and effectiveness of internal controls and risk and opportunity management.
50. The audit committee should ensure that internal audit, and other specialists within the third line of assurance, support the organisation achieving strategic objectives by bringing a systematic, disciplined approach to the independent and objective evaluation, and continuing improvement of risk and opportunity management and the internal control environment.
51. The governing body should delegate to the audit committee to approve an internal audit charter that articulates and gives effect to its strategic direction on independent and objective assurance on the adequacy and effectiveness of internal controls and risk and opportunity management.
52. Taking into account proportionality, the audit committee should decide whether an internal audit function headed by a chief audit executive (CAE) should be established.

53. If a CAE is appointed, the audit committee should ensure that the CAE has the requisite authority and independence. For reasons of independence, the CAE should report functionally to the audit committee chair and administratively to the CEO, with access to the chair of the governing body.
54. The audit committee should oversee the appointment and performance of the CAE and be responsible for the dismissal of the CAE, when necessary.
55. Regardless of the internal audit structuring and arrangements approved by the audit committee, the audit committee should ensure that the internal audit function, the CAE and other specialists in the third line of assurance are independent from management that designed and implemented the controls. The CAE and such other specialists may not be members of the executive, but may be invited to attend executive meetings.
56. Where internal audit services are outsourced, in part or in totality, responsibility should be assigned by the audit committee to a senior manager who is appropriately independent from management who implemented the controls and who has the necessary level of knowledge, competence and authority to facilitate effective outsourcing.
57. The audit committee should oversee that the structuring and arrangements for internal audit has appropriate skills and resources to address the complexity and volume of risk; and that internal audit is supplemented as required by the specialist skills of internal forensic examiners, fraud examiners and auditors, safety and process assessors, and statutory actuaries.
58. The audit committee should oversee that internal audit: -
    a. follows an approved risk-based internal audit plan, and
    b. monitors the risk and opportunity profile regularly and proposes revisions to the audit plan accordingly.
59. The audit committee should oversee that internal audit and other specialists in the third line of assurance periodically conduct a formal review of the adequacy and effectiveness of risk and opportunity management and internal control systems.

Refer to Chapter 3 for recommendations in relation to disclosure on internal audit and the internal control environment.

Assurance of reports

Recommended Practices

60. The governing body should delegate to the audit committee to provide direction on assurance that supports the integrity of reports.
61. The audit committee should apply its mind to *assurance requirements* over reports other than financial statements, including:
    a. considering whether to require assurance over the process for the preparation of the report, or the underlying data, or both
    b. determining the reporting boundary or scope
    c. determining the appropriate level or extent of assurance depending on the size, resources and complexity of strategic objectives and operations of the organisation

d. considering the criteria against which reports should be assured, for example: integrity, which includes reliability (validity, accuracy and completeness) and usefulness (relevance, consistency and measurability), and
e. determining the assurance required over future-orientated information.

62. The governing body should delegate to the audit committee *oversight of assurance provided* over reports other than financial statements, which includes:
   a. the origin of the information and whether it was subject to the oversight of another line of assurance
   b. the process by which the information was extracted from original data, and related internal controls over the process
   c. whether there are internal assurance processes in place over the information
   d. the competence and objectivity of the assurance provider
   e. assurance methodology applied by assurance providers, and
   f. possible limitations or scope restrictions.

63. Reports, other than financial statements, that are published by the organisation should disclose:
   a. a description of assurance performed
   b. detail of the work of other assurance providers that have been relied upon, and
   c. an assurance conclusion.

PART 5: KING CODE ON CORPORATE GOVERNANCE FOR SOUTH AFRICA
CHAPTER 5: STAKEHOLDER RELATIONSHIPS

5.1 Stakeholders

Principle 5.1: As part of its decision-making in the best interests of the organisation, the governing body should ensure that a stakeholder-inclusive approach is adopted, which takes into account and balances their legitimate and reasonable needs, interests and expectations.

Stakeholder relationships

Recommended practices

1. The governing body should provide strategic direction for the organisation's relationships with its stakeholders.
2. The governing body should ensure that it approves policy that articulates its strategic direction on stakeholder relationships.
3. Policy should provide for the adoption of the appropriate standards and frameworks to give effect to the policy.
4. The governing body should delegate to management responsibility for implementing policy on stakeholder relationships and embedding it into the day-to-day, medium and long-term decision making, activities and culture of the organisation.
5. The governing body should oversee stakeholder relationship management, including:
   a. effective management of stakeholder relationships that contributes to value creation and achieving strategic objectives
   b. an integrated stakeholder communications plan that includes:
      i. the use of digital and other communication platforms as a strategic tool - for marketing, as a source of intelligence, to influence perceptions about the brand and products, and to improve transparency and communication
      ii. standards and processes for development of content and sharing of information on digital and other communication platforms, including assigning of decision-making authority on approval of content and manner of dissemination
      iii. systematic gathering and analysis of information emanating from communication platforms, to assess reputational risks and to develop appropriate responses, and
      iv. a plan for addressing communication in crisis situations.
   c. measurement of quality of stakeholder relationships as well as appropriate responses to results
   d. a dispute-resolution mechanism and associated processes, as part of the standard terms and conditions of the organisation's contractual arrangements with employees and other stakeholders.
6. The governing body should oversee that the organisation assesses and responds to how digitisation and automation are shaping future workforce requirements, and the possible impact on employees and society.
7. The governing body should, as part of the organisation's growth and innovation strategy, oversee that skill sets required over the long term are identified and that the organisation invests in continuous learning, re-skilling and up-skilling of employees.
8. There should be disclosure of:

a. structures and processes for stakeholder relationship management
b. key focus areas during the reporting period, and
c. mechanisms for monitoring and assessing the quality of stakeholder relationships.

9. There should be disclosure of reasons for refusals of requests for information that were lodged with the organisation in terms of the Promotion of Access to Information Act, 2000.

Shareholder relationships (only applicable to companies)

10. The board should provide clear strategic direction for relationships with shareholders.
11. The board should ensure pro-active engagement and development of relationships with shareholders, including institutional investors, so as to strengthen their ability to act in accordance with laws and codes that guide shareholder responsibilities.
12. The board should oversee that the company encourages shareholders to attend general meetings of the company. The chair of the board and the chairs of its committees should, where necessary, pro-actively engage with shareholders on items that serve on the agenda for the general meeting.
13. The board should oversee that the designated partner of the external audit firm attends the general meeting.
14. The board should oversee that there is equitable treatment of all holders of the same class of shares, and that the interests of minority and foreign shareholders are adequately protected.
15. Minutes of general meetings should be publicly available and should be sufficiently detailed to express matters raised by shareholders and how these have been addressed.

5.2 Responsibilities of shareholders

Principle 5.2: The governing body of an institutional investor should ensure that the organisation responsibly exercises its rights, obligations, legitimate and reasonable needs, interests and expectations, as holder of beneficial interest in the securities of a company.

Recommended Practices

16. The governing body of an institutional investor should provide strategic direction on responsible investment.
17. The governing body of an institutional investor should ensure that it approves policy that articulates its strategic direction on responsible investment.
18. The policy should provide for the adoption of recognised responsible investment principles and practices to give effect to the governing body's strategic direction.
19. Where the organisation as institutional investor outsources any of its investment arrangements or activities, including asset management and voting, to custodians, nominees or other service providers, the governing body should ensure that a formal mandate is in place that sets out its directions on responsible investment practices, including how votes are cast and other investment activities and decisions executed.
20. The governing body of an institutional investor should delegate to management the responsibility for implementing responsible investment, in accordance with recognised principles and practices.

21. The governing body of an institutional investor should oversee that custodians, nominees or other service providers are held accountable for the casting of votes and execution of other investment activities and decisions, in accordance with the formal mandate.
22. The governing body of an institutional investor should disclosure on its investment policy and adherence to recognised principles and practices.

Group Governance (only applicable to companies within a group)

Recommended Practices

23. The board of a holding company should ensure that a group corporate governance framework is in place to address relationships and the exercise of authority and power amongst the companies within the group.
24. All boards within the group should contribute to the development of the group governance framework and agree to it.
25. The adoption and implementation by the subsidiary company of policies and procedures of the holding company is a matter for consideration and approval by the board of the subsidiary company as a separate legal entity.
26. The group governance framework should be given effect in the memoranda of incorporation, delegations of authority, shareholder agreements, board charters, board committee terms of reference, and related policies and agreements.
27. The group governance framework should provide for recognition of the separate and independent juristic personalities of each company within the group, and the legal duties of each director to the company to which the director is appointed.
28. The group governance framework should address matters that include:
    a. delineation of the rights and role of the holding company
    b. if appropriate, delegation of certain responsibilities by the board of a subsidiary to a board committee of the holding company, without abdicating accountability and subject to agreed reporting and information-sharing arrangements
    c. the extent of adoption of governance and operational policies across the group
    d. engagement by the holding company with the boards of subsidiary companies before election of directors to the board of the subsidiary takes place
    e. having structures and procedures in place to address the risk of breach of legal duty in relation to use of information obtained whilst acting as director.
29. Each board within the group should ensure that cross-directorships, and managers holding directorships in companies in the group other than that which they manage, do not affect the robust interrogation of information that is provided for decision-making and execution of duties.
30. The board of the holding company should, in terms of its legal duties towards the holding company, oversee that the agreed corporate governance framework is implemented and adequately maintained across the group.

31. There should be disclosure by the holding company of the agreed corporate governance framework which is implemented across the group, and on the mechanisms by which its implementation is monitored and assessed.
32. The delegation to board committees of the holding company, and the extent of the adoption and implementation of policies and procedures of the holding company by the subsidiary company, should be disclosed by the subsidiary company.

PART 6: SECTOR SUPPLEMENTS

Sector Supplements will be published and opened for commentary during April 2016.

PART 7: KING IV APPLICATION REGISTER

This document is a template that organisations should use as guidance for the disclosure as required in the King IV Code. It is recommended that this be posted on the organisation's website.

The application register should be used together with other means of disclosure such as the organisation's annual integrated report. Duplication should be avoided by cross referencing. As per the practice recommendation in chapter 2 of the King IV Code: "*The governing body should oversee … integration of reports and disclosure in substance and form and across various reporting media and communication platforms*."

The detail of information to be provided in the application register should be guided by materiality and what has already been disclosed elsewhere. It should enable stakeholders to make an informed assessment of the corporate governance at the organisation and the extent to which effect has been given to the principle.

The specimen Application Register is meant to provide an indication of the approach that could be followed in regards to the required disclosures.

PRINCIPLES, the application of which is assumed	**EXPLANATION** on the practices that have been implemented and the progress made in giving effect to the principle
OUTCOME: ETHICAL CULTURE	
Principle 1.1: The governing body should set the tone and lead ethically and effectively.	**Specimen disclosure** *As governing body members we are holding one another accountable for decision-making and acting in a way that displays the ethical characteristics stated in King IV. The chair of the governing body has been tasked to monitor this as part of her duties. We furthermore undertook an assessment of the performance of individual members of the governing body which included peer evaluation of the ethical characteristics*

	demonstrated by each member of the governing body. As a result of the evaluation the governing body agreed to make ongoing professional development of its members a priority for the coming year so that governing body members are able to fully demonstrate the characteristic of being informed.
Principle 1.2: The governing body should ensure that the organisation's ethics is managed effectively.	**Specimen disclosure** *The organisation has established the values of honesty, communication, effectiveness and transparency as the convictions that guide the way we are doing things even when no one is watching. The organisation has a code of conduct in place which is applicable to employees and incorporated as part of the contractual arrangements with parties in the supply chain. All employees are required to attend ethics awareness training at least once every year and performance evaluations of employees include ethical conduct. The organisation had a forensic fraud audit conducted and an independent ethics assessment is planned for the upcoming year which will guide the further steps to be taken to further enhance ethical management. It will also enable the governing body to get an estimation of the extent to which we have achieved effective ethics management.*
Principle 1.3: The governing body should ensure that the organisation is a responsible corporate citizen.	**Specimen disclosure** *The organisation strives to integrate responsible corporate citizenship as part of the way we do things and performance measures in respect thereof are shared across functions and business units. The governing body has delegated to the social and ethics committee, amongst others, the responsibility for monitoring the overall responsible corporate citizenship performance of the organisation. In this regard the committee is working closely with the CEO, ethics officer and the executives responsible for risk, HR and stakeholder relationships. A key focus area during the reporting period was the organisation's international tax strategy which was developed by the group finance director and finally approved by the audit committee from a financial perspective and by the social and ethics committees from a reputational and responsible corporate citizenship perspective. The organisation has furthermore had an independent health and safety audit conducted after the major industrial incident at our main plant last year.*

	Corrective measures have been implemented as a result of the recommendations emanating from the audit. Employee wellness and skills development was another area of focus driven by the specialist skills shortages. For more detail on how the organisation addressed responsible citizenship, refer to the organisation's sustainability report on www.organisation.co.za/reports . Users of this report will note that the organisation's performance as corporate citizen is monitored against targets approved by the social and ethics committee.
OUTCOME: PERFORMANCE AND VALUE CREATION	
Principle 2.1: The governing body should lead the value creation process by appreciating that strategy, risk and opportunity, performance and sustainable development are inseparable elements.	**Specimen disclosure** *To view the organisation's core purpose, our strategic pillars and strategic priorities as well as the performance in terms thereof, refer to our annual integrated report on www.organisation.co.za/reports.* The *annual integrated report demonstrates that organisational performance is understood as both the achievement of strategic objectives and the enhancement of the capitals and relationships that the organisation uses and affects, i.e. value-creation. Sustainable development is seen to be a source of opportunity and the organisation defines its core purpose, sets and achieves its strategic objectives with reference to risk and opportunity. The governing body assesses on a continual basis the positive and negative outcomes resulting from its business model and responds to it as highlighted in the annual integrated report referred to above.*
Principle 2.2: The governing body should ensure that reports and other disclosures enable stakeholders to make an informed assessment of the performance of the organisation and its ability to create value in a sustainable manner.	**Specimen disclosure** *Refer to our annual integrated report on www.organisation.co.za/reports that presents material information in an integrated manner and provides users with a holistic, clear, concise and understandable presentation of the organisation's performance in terms of sustainable value creation in the economic, social and environmental context within which it operates. The organisation is striving to fully achieve this principle by actively soliciting input from key users of our reports so as to create a learning cycle that will*

	result in continual improvement of the way that we communicate with our stakeholders through our reports.
OUTCOME: ADEQUATE AND EFFECTIVE CONTROL	
Principle 3.1: The governing body should serve as the focal point and custodian of corporate governance in the organisation.	**Specimen disclosure** *The role and responsibilities of the governing body are as set out under principle 3.1 of the King IV Code. These roles and responsibilities are articulated in the governing body charter and reflected in the workplan. In the view of the governing body it is serving as the focal point and custodian of corporate governance of the company both in terms of how its role and responsibilities are documented and the way that it executes its duties and decision making.*
Principle 3.2: The governing body should ensure that in its composition it comprises a balance of the skills, experience, diversity, independence and knowledge needed to discharge its role and responsibilities.	**Specimen disclosure** *Refer to our website www.organisation.co.za/governingbody for the requisite disclosure on the governing body. During the past year, the governing body, with the assistance of the nominations committee, considered its composition in terms of balance of power and skills, experience, diversity, independence and knowledge and whether this enables it to effectively discharge its role and responsibilities. As a result of this consideration the governing body had identified that there was a need for greater diversity in order that various perspectives are brought to deliberations and to add depth to discussions. The governing body had taken steps to strengthen its succession plan so as to achieve greater diversity by 2017.* *Particular trouble has been taken during the year under review to strengthen our engagement with shareholders on the nomination process. More detailed information on the process as well as each candidate is provided so as to enable shareholders to exercise their voting rights on an informed basis.*

	Mr B has been serving on the governing body for 10 years. Despite this the governing body has, after conducting an independence assessment, concluded that Mr B is free from relationships or circumstance that are likely to affect, or that may appear to affect, his objective judgement.
Principle 3.3: The governing body should consider creating additional governing structures to assist with the balancing of power and the effective discharge of responsibilities, but without abdicating accountability.	**Specimen disclosure** *Refer to our website www.organisation.co.za/governingbody/committees for access to the terms of reference for each committee of the governing body and access to our annual integrated report www.organisation.co.za/reports for information on the members of each committee and attendance. Membership of the committees are as recommended in King IV except for the remuneration committee where the majority of members are not independent due to the fact that there are not sufficient independent non-executive members of the governing body to fill all the independent positions on the committees. Furthermore Ms A and Mr Z, both of who are non-executive members of the governing body, have been identified as suitable members of the remuneration committee due to their experience and skills in this area which was considered of more importance than independence in the view of an informed third party. Despite not adhering to the recommended practice, the governing body believes that the remuneration committee is able to discharge its responsibilities effectively as per Principle 3.3.* *The composition of the committees of the governing body and the distribution of authority between the chair and other individuals furthermore leads to neither the chair nor any other individual(s) being able to dominate decision-making within governance structures or cause undue dependency on such individual(s).* *The audit committee is satisfied that the auditor is independent of the organisation as non-audit services are not performed and the auditor firm has been appointed for 5 years with the designated partner having oversight of the audit for the same period of time.*

	A CFO has been appointed as head of the finance function. The CFO has 2 senior managers who are qualified CA(SA)s reporting to her. Internal audit has been fully outsourced and the CFO is responsible for overseeing and co-ordinating the effective functioning of the outsourcing arrangement. The audit committee is in the process of considering whether allocating this oversight responsibility to the CFO is not affecting the independence of internal audit. A final decision regarding oversight of outsourced internal audit services will be made and disclosed in the next reporting period. *An assessment of the effectiveness of neither the finance nor the internal audit function has been performed by the audit committee. This is recognised as having the ability to affect financial reporting as well as the effectiveness of the internal control environment and it has therefore been placed on the work plan of the audit committee for the upcoming financial year.* *The integrated assurance model has only recently been adopted and therefore its assessment together with the assessment of the system for internal financial controls will only be conducted towards the end of the next financial year.* *The significant matters addressed by the audit committee during the year under review is addressed in the report of the audit committee chairman in the annual integrated report www.organisation.co.za/reports.*
Principle 3.4: The governing body should ensure that the appointment of, and delegation to, competent executive management contributes to an effective arrangement by which authority and responsibilities are exercised.	**Specimen disclosure** *The governing body has reserved for itself the powers as referred to in the MoI. The governing body also reserves the right to finally approve strategy, business plans, annual operations budgets, key policies as defined as well as employee collective bargaining agreements. A detailed delegation of authority is in place.*

	The CEO does not have work commitments outside of this organisation. A succession plan for the CEO is not in place. The governing body plans to address this matter during the upcoming year. *Refer to our website www.organisation.co.za/governingbody/committees for access to the executive and senior management structure including the role and relevant qualifications, skills and experience of each.* *The organisation has appointed a company secretary on a part-time basis as it is not able to afford a full-time employee with the requisite knowledge, experience and stature. The company secretary's performance is assessed by the board every year and corrective steps taken where necessary. No major issues or concerns have been identified and the governing body is satisfied that the company secretary and the function that he oversees are performing well. The company secretary does sign off on disclosure of membership of governing body structures, number of meetings of each and attendance at each meeting as well as the overall content of the committee information and reporting that are in the public domain.* *The governing body is satisfied that the organisation is appropriately resourced and that its delegation to management contributes to an effective arrangement by which authority and responsibilities are exercised.*
Principle 3.5: The governing body should ensure that the performance evaluations of the governing body, its structures, its chair and members, the CEO and the company secretary or corporate governance professional result in continued improved performance and effectiveness.	**Specimen disclosure** *Assessments of the performance of the company secretary and the CEO are conducted annually. The performance of the governing body structures and its members are conducted every three years simultaneously. The three-year interval allows the opportunity for thorough remedial interventions. It is the opinion of the governing body that the governing body and its structures should function in an integrated manner and a simultaneous assessment of the whole governing body structure would highlight issues that affect the whole structure. As reported the year before, succession planning for board*

	members and fragmentation, overlap of the functions of the governing body and its committees and ongoing professional development of members of the governing body were identified as key matters to address through the previous assessment in 2014. The governing body has developed a preliminary succession plan which will be finalised after further discussion and consultation and implemented in the year ahead. The particular development needs of the board and individual members have been identified and the company secretary has assisted the governing body in designing a professional development programme that addresses both. *The governing body has furthermore with the assistance of the company secretary undertaken a holistic review of its charter and the terms of references in order achieve better integration and co-ordinations amongst the governing body and all committees. This process is still underway.*
Principle 4.1: The governing body should govern risk and opportunity in a way that supports the organisation in defining core purpose and to set and achieve strategic objectives.	**Specimen disclosure** *As far as the nature and extent of the risk that the organisation is prepared to take are concerned, the governing body has directed that the organisation will not accept any risks that will be a "High Risk" after mitigation. Furthermore, the organisation shall ensure that it materializes at least the targeted percentage of the budgeted earnings at a 95% confidence level.* *The risk committee has been tasked to assist the board with the governance of risk. The risk committee has approved the risk management policy which determines that the COSO enterprise-wide risk management framework be adopted. As risk management permeates all aspects of the operations of the organisation, risk is overseen at executive level.* *As the risk function is newly established, the risk committee did not formally assess its effectiveness. A formal assessment will be conducted in the 2016 financial year. Meanwhile the risk committee has used*

	the interrogation of risk heat maps presented by management and the output of risk-based internal audit and the other lines of assurance to assess the risk management function. *Access our annual integrated report on www.organisation.co.za/reports for an overview on whether and how past performance, current operations, and future strategic objectives are affected by uncertainties in the external environment.* *The governing body and the organisation are working towards a mature risk management (including an effective internal control environment) that will assist the organisation in achieving its objectives.*
Principle 4.2: The governing body should govern technology and information in a way that supports the organisation in defining core purpose and to set and achieve strategic objectives.	**Specimen disclosure** (Refer to specimen disclosure under Principle 4.1.)
Principle 4.3: The governing body should govern compliance with laws and ensure consideration of adherence to non-binding rules, codes and standards.	**Specimen disclosure** (Refer to specimen disclosure under Principle 4.1.) *There were no material or repeated regulatory penalties, sanctions or fines for contraventions of, or non-compliance with, statutory obligations.*
Principle 4.4: The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the creation of value in a sustainable manner.	**Specimen disclosure** *Refer to our annual integrated report on www.organisation.co.za/reports for disclosure on remuneration in 3 parts as recommended in the Code.*

Principle 4.5: The governing body should ensure that assurance results in an adequate and effective control environment and integrity of reports for better decision-making.	**Specimen disclosure** *Refer to our annual integrated report and supplementary reports on www.organisation.co.za/reports for information on assurance provided. Following this link view the disclosure by the audit committee on internal financial and reporting controls.* *Refer to disclosure under Principle 3.3 above on the integrated assurance model and internal audit.*
OUTCOME: TRUST, GOOD REPUTATION AND LEGITIMACY	
Principle 5.1: As part of its decision-making in the best interests of the organisation, the governing body should ensure that a stakeholder-inclusive approach is adopted, which takes into account and balances their legitimate and reasonable needs, interests and expectations.	**Specimen disclosure** *The organisation has identified key stakeholder groupings and their legitimate and reasonable needs, interests and expectations. Stakeholder relationship programmes have been developed to ensure continual engagement and staying attuned. To guide us in our interaction with stakeholders, an assessment of the quality of relationships has been conducted. The assessment has shown that the organisation's relationship with the communities and creditors needs to be improved. Steps have been taken to remedy these in accordance with the specific areas that need to be addressed. Social media platforms are used extensively to inform stakeholders and to encourage engagement. Due to the risks that this form of communication involves, strict requirements and processes have been developed for dissemination of content on these platforms. The organisation has also introduced systems to gather and analyse information that could provide useful intelligence on stakeholder perceptions or which could adversely affect the organisation's reputation. A further assessment on particular community and creditor relationships will be done in a year's time in order to measure progress made.* *Refer to our sustainability report on www.organisation.co.za/reports for more detail on stakeholder relationship programmes and engagements.*

Principle 5.2: The governing body of an institutional investor should ensure that the organisation responsibly exercises its rights, obligations, legitimate and reasonable needs, interests and expectations, as holder of beneficial interest in the securities of a company.	**Specimen disclosure** *The organisation is not an institutional investor.* *There is a governance framework in place between the organisation as holding company and its subsidiaries in terms of which the audit, risk and remuneration committees of the governing body of the holding company assumes responsibility for the subsidiary companies. This arrangement is subject thereto that the board of each subsidiary company receives reports from the holding company committees in recognition thereof that the directors of the subsidiary companies cannot abdicate their legal duty to the subsidiary company. Subsidiary companies have considered and adopted holding company policy with regards to risk, information and technology, compliance and remuneration.*

PART 8: GLOSSARY OF TERMS

Broader forms of address are used in this Report, namely ‘organisations’, ‘governing body’ and ‘those charged with governance duties’. The use of ‘corporate’ such as in ‘corporate governance’ is meant to refer to the governance of organisations that are incorporated to form legal entities separate from their founders.

The applicable terminology is used in the sector supplements.

The following words carry the meaning as indicated for purposes of interpreting and applying King IV:

Accountability	Accountability is the state of being liable, answerable, or accountable.[1] One is accountable for one’s responsibilities. Accountability cannot be delegated, whereas authority can be delegated without abdicating accountability.
Accrued	An expense that is recognized, but not paid as yet. In relation to remuneration it means any benefit awarded, but in respect of which full ownership has not vested in favour of the recipient of the benefit.
Audit firm tenure	The number of uninterrupted financial years that an audit firm has been appointed as auditor of an organisation, up to and including the organisation’s last audited financial year.
Beneficial interest	Beneficial interest is as defined in the Companies Act
Board	Board means the board of directors of a company if it is used in the context of a company, but it also includes a council if used in the context of a municipality and a board of trustees if used in the context of a retirement fund, as well as the governing body of any other organisation or entity.
Business	Business includes enterprise and denotes the operations and range of activities conducted by companies, organisations and entities regardless of their form of incorporation.
Business model	The business model of an organisation consists of input in the form of the resources that it uses and the relationships with its stakeholders. These resources and relationships are subjected to business processes and activities that convert resources and relationships into output consisting of products and services. The outputs in turn lead to outcomes which either diminish or destroy, or enhance the capitals.[2]
Capitals or six capitals	The capitals refer to the various forms of capital that the organisation uses and affects in the course of its business activities and operations. In accordance with the six capitals model[3] these capitals consist of financial, manufactured, intellectual, human, social and relational, and natural capital.

[1] http://definitions.uslegal.com/a/accountability/
[2] The International Integrated Reporting Council; The International <IR> Framework, 13 December 2013 - http://integratedreporting.org/resource/international-ir-framework/
[3] The International Integrated Reporting Council; The International <IR> Framework, 13 December 2013 - http://integratedreporting.org/resource/international-ir-framework/

CEO	CEO refers to the chief executive officer or the highest ranking employee in an organization regardless of naming convention.
Companies Act	Companies Act 71 of 2008
Company	Company refers to the juristic person incorporated in terms of the Companies Act and unless it is used specifically with reference to the Companies Act in this report, it includes all organisations and entities regardless of their form of incorporation.
Code	King IV Code on Corporate Governance for South Africa, 2016
Corporate Citizenship	Corporate citizenship is the recognition that the organisation is an integral part of the broader society within which it operates. It has a standing as juristic person in that society with rights but also responsibilities and obligations. It is also recognition that the broader society is the licensor of the organisation.
Culture	Culture in a business context refers to the established norms of how the governing body and the internal stakeholders of an organisation conduct themselves and relate to each other, their work and the outside world[4] in short – 'the way we do things around here when no one is watching'.
Director(s)	Means the director(s) of a company if it is used in the context of a company but it also includes member(s) of a council if used in the context of a municipality and member(s) of a board of trustees if used in the context of a retirement fund, as well as member(s) of the governing body of any other organisation or entity.
Disclosure	Disclosure refers to information that is made publically available regardless of the format or the disclosure platform or medium.
Effective leadership	Effective leadership is results-driven and refers to leading the organisation towards achieving its core purpose and strategic goals.
Ethics	Ethics in the context of business refers to the ethical values and principles applied to the organisation's activities, how decisions are made and the relationship between the organisation and its stakeholders.
Executive management	Executive management or the executive is after the governing body the highest decision-making authority in the organisation. Executive managers are the members of the executive management team and include those who exercise general executive control over the whole or portions of the business and activities of the organisation.
External stakeholders	External stakeholders are indirectly affiliated to the organisation and include creditors, regulators, the media and the society within which the organisation operates.
Governance outcomes	Governance outcomes are the positive effects or benefits of good corporate governance for the organisation. These positive effects include: (i) an ethical culture; (ii) sustainable performance and value-creation; (iii)

[4] http://geert-hofstede.com/companyal-culture.html

	adequate and effective control by the governing body, and; (iv) building and protecting reputation and legitimacy.
Governing body	Governing body is the structure that has the accountability for the governance, leadership and performance of the organisation. Members of the governing body are those who are duly appointed to serve on the governing body.
Holding company	Holding company is as defined in the Companies Act
Inclusive capitalism	Inclusive capitalism relates to the organisation's reliance on human, intellectual, social and relational, and environmental capitals in addition to financial and manufactured capitals in order to restore capitalism as an engine of broadly shared prosperity.
Integrated annual report	An integrated annual report is a holistic and integrated representation of the organisation's ability to sustainable value creation within the economic, social and environmental context in which it operates in clear, concise and understandable language.[5]
Integrated thinking	Integrated thinking is defined as the pro-active consideration by an organisation of the relationships between its various operating and functional units and the capitals that the organisation uses or affects.[6]
Internal stakeholder	Internal stakeholders are directly affiliated with the organisation and include its governing body, management, employees and shareholders.
Institutional investor	Institutional Investor means any juristic person or institution referred to in the definition of 'financial institution' in section 1 of the Financial Services Board Act No 97 of 1990, to the extent that these juristic persons or institutions are the holders of beneficial interest in the securities of a company. It includes retirement funds and insurance companies as well as the custodians, nominees and service providers who act under mandate in respect of any investment decisions and investment activities exercised in relation to these securities. [7]
King III	King III Report on Governance for South Africa, 2009
King IV	King IV Report on Corporate Governance for South Africa, 2016 which incorporates the King IV Code and all the other Parts.
King IV Code	King IV Code refers to the Code included in the King IV Report
King IV Report	King IV Report on Corporate Governance for South Africa, 2016
Material/ materiality	Materiality refers to matters that substantively affect the organisation's ability to create value over the short, medium and long term [8]
MFMA	Municipal Finance Management Act 56 of 2003

[5] Adapted from The International Integrated Reporting Council; The International <IR> Framework, 13 December 2013 - http://integratedreporting.org/resource/international-ir-framework/
[6] The International Integrated Reporting Council; The International <IR> Framework, 13 December 2013 - http://integratedreporting.org/resource/international-ir-framework/
[7] Adapted from definition in Code for Responsible Investing in South Africa, p9
[8] The International Integrated Reporting Council; The International <IR> Framework, p5

Municipal Structures Act	Municipal Structures Act 117 of 1998
Municipal Systems Act	Municipal Systems Act 32 of 2000
Organisation	Organisation includes a company, retirement fund, state-owned entity, municipality, municipal entity and all other juristic persons regardless of their manner of incorporation.
Outcomes	Outcomes describes the effect and impact of an organisation's activities and outputs on the capitals. It includes both positive effects and impacts which would have resulted in the enhancement of the capitals and negative effects and impacts which would have resulted in diminishment or destruction of the capitals. [9]
Outputs	Output describes the products, services, by-products and waste that are produced by an organisation. [10]
Performance	Performance means *both* the achievement of strategic objectives and overall positive outcomes in terms of effects and impacts on the capitals.[11]
PFMA	Public Finance Management Act 1 of 1999
Plan	A list of steps taken to accomplish a set goal or strategy
Policy	Policy defines the course of action and scope or spheres within which judgements are exercised, decisions are made and actions are taken. It includes dealing with the following matters: • objectives • approach and philosophy • responsibilities and ownership, and • standards, methodologies and practices.
Prescribed officer	Prescribed officer is as defined in regulation 38 of the Companies Act.
Responsibility	A responsibility is a duty, obligation or liability for which one is held accountable.[12]
Report	A report is a means by which disclosure is effected. It is a formal written account that carries the label 'report' as part of its title and it includes both reports within the organisational structures and reports to external stakeholders.
Risk	Risk is about uncertainty, its likelihood of occurring and the effect thereof both positive and negative on the achievement of the organisation's objectives.
Risk and opportunity management	Risk and opportunity management refers to the coordinated activities to direct and control an organisation with regard to risk and opportunity and

[9] Adapted from The International Integrated Reporting Council; The International <IR> Framework, 13 December 2013 - http://integratedreporting.org/resource/international-ir-framework/
[10] Adapted from The International Integrated Reporting Council; The International <IR> Framework, 13 December 2013 - http://integratedreporting.org/resource/international-ir-framework/ and Reporting on Outcomes: An Information Paper, Integrated Reporting Committee South Africa, www.integratedreportingsa.org , 2015
[11] Adapted from The International Integrated Reporting Council; The International <IR> Framework, 13 December 2013 - http://integratedreporting.org/resource/international-ir-framework/
[12] https://en.wiktionary.org/wiki/responsibility

	could alternatively be described as enterprise-wide risk and opportunity management (EROM).
Senior manager/ management	Senior management is the level of management reporting to executive management.
Shareholders	Shareholders are as defined in the Companies Act and include members of non-profit companies.
Society	Depending on the context, society refers either to an organisation's society comprising of its internal and external stakeholders - its licensors that permit it to operate - or the broader society in which the organisation operates as a juristic person.
Stakeholders	Stakeholders are those who are connected to the organisation by contract or otherwise and who are affected by the outcomes of business activities. Stakeholders furthermore affect the organisation in that governing bodies need to take account of and balance the legitimate and reasonable needs, interests and expectations of an organisation's material stakeholders in its decision-making process.
State-owned entities	State-owned entities are as listed in schedule 2 and 3 of the PFMA.
Stranded asset	A stranded asset is an asset which is no longer useful and which has prematurely been written-down, devalued or converted to a liability[13].
Strategy	Strategy deals with the core purpose of the organisation and the setting of its short- medium- and long-term direction in its endeavour to sustain the creation of value.
Subsidiary	Subsidiary is as defined in the Companies Act.
Sustainability or sustainable	Sustainability or sustainable refers to the ability to continue or maintain over a period of time.
Sustainable capitalism	Sustainable capitalism refers to a capital markets system that should maintain value creation in a sustainable manner.
Sustainable development	Sustainable development is to devise strategy and conduct business activities in a manner that meets the existing needs of the organisation without compromising the ability of future generations to meet their needs.
Trust	Trust refers to the faith that stakeholders place in an organisation which brings about a good reputation, its legitimacy and licence to operate.
Value	Value may be positive or negative and describes the results of the value creation process in terms of the enhancement, diminishment or transformation of the capitals.
Value creation	Value creation describes the value that the organisation has created through its interaction with the external environment and its sources of capitals and ongoing stakeholder relationships. It manifests itself in enhancement, diminishment or transformations of the six capitals.

[13] https://en.wikipedia.org/wiki/Stranded_asset#cite_note-1

Values	Values are convictions and beliefs which include how internal and external stakeholders should be treated, the core purpose and objectives of the organisation, expectations for performing work duties and how stakeholders should conduct themselves.