King IV Report

The fourth revision (King IV) was already published for public comment during March 2016 and is expected to be released soon.

Background

Corporate governance is a set of rules and practices by which a governing board is supposed to ensure accountability, fairness and transparency in an organisation's relationship with its stakeholders.

The King Code is non-legislative and is based on principles and practices. Although the code is not enforced through legislation, due to evolutions in South African law many of the principles are now embodied as law in the Companies Act of South Africa of 2008. The philosophy of the code consists of the three key elements of leadership, sustainability and good corporate citizenship. It views good governance as essentially being effective and ethical leadership.

Like the previous versions, the King IV code focuses on the concept of stakeholder inclusivity and highlights that organisations are not merely responsible for the economic bottom line but critically need to consider the societal and environmental impacts and outcomes of their operations.

Scope of King IV

The new version has built on the King III principles but is more principle-based and follows an outcome-based rather than rule-based approach. This is in line with current international sentiment which promotes greater accountability and transparency. There have been significant corporate governance and regulatory developments, locally and internationally, since King III was issued. Although South African listed companies have generally been applying King III, other entities have experienced challenges in interpreting and adapting the Code to their particular circumstances. The King IV Code has been structured as a framework that can be applied more easily across both listed and unlisted companies, profit and non-profits as well as private and public entities. The King IV Report now includes additional guidance to various categories of organisations and sectors such as small and medium entities, non-profit organisations, public sector organisation and entities, municipalities and pension funds.

Elements and Principles of King IV

King IV has the following elements: *practices, principles and governance outcomes*. The practices are recommended at an optimum level of corporate governance and should be adapted by each organisation to achieve the principle. The governance outcome is the positive effect or benefits of good corporate governance for the organisation and includes ethical culture, performance and value creation, adequate and effective control and trust, good reputation and legitimacy.

The philosophy of King IV is focused around the following:

- Ethical and effective leadership
- Company's role and responsibility in society
- Corporate citizenship
- Sustainable development
- Stakeholder inclusivity and responsiveness
- Integrated reporting and integrated thinking

The 75 King III principles have been consolidated into 17 principles in the draft King IV, each linked to very distinct outcomes.

PLEASE! NOTE

These principles have been attached as an annexure

What is new in King IV?

1. King IV has been structured as a framework that can be applied more easily across listed and unlisted companies, profit and non-profits as well as private and public entities. As such the Code refers to "organisations" and "governing bodies".
2. Remuneration is receiving greater prominence and the minimum requirements of the remuneration policy are stipulated. Greater disclosure on remuneration is also required.
3. King IV recognises information separately from technology as a corporate asset and requires disclosure on the structures and processes for information and technology, key focus areas, mechanisms for monitoring and information management.
4. King IV recommends the establishment of a social and ethics committee and expands on the role of this committee beyond what is outlined in the Companies Act.
5. King IV emphasises the role of stakeholders in the governance process where their legitimate and reasonable needs, interest and expectations must be considered.
6. King IV emphasises the importance of risk management in considering the interdependences of risk. It is recommended that there should be an overlap in membership between the audit and risk committee and that the risk committee should constitute at least three directors with the majority being non-executives.
7. King IV suggests that the audit committee oversees auditor independence.
8. A separate principle is included in which a governance framework should be agreed between the group Board and subsidiary Board.

King IV requires an '**Apply AND Explain'** approach, as opposed to King III which is **'Apply OR Explain'**. This means that application of the principles is assumed, and that an explanation is disclosed on the practices that have been implemented and the progress made towards governance outcomes.

In conclusion

The new version of the King Report provides a more practical and principle-based approach to good corporate governance. If implemented effectively it should provide more transparency as it is simpler and more user-friendly to apply the principles.

KING IV PRINCIPLES		
Principle 1.1	The governing body should set the tone and lead ethically and effectively	→ **ETHICAL CULTURE**
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	
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	→ **PERFORMANCE AND VALUE CREATION**
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	
Principle 3.1	The governing body should serve as the focal point and custodian of corporate governance in the organisation	→ **ADEQUATE AND EFFECTIVE CONTROL**
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	
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	→ **TRUST, GOOD REPUTATION AND LEGITIMACY**
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	