Are you ready to implement King IV™?

A shift of focus
The King IV Report on Corporate Governance™
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Introduction

A fundamental rethinking is required because the rationale underpinning implementation of the King IV Code™ has been totally reconceived.

King III provided a firm foundation for world-class corporate governance. While King IV does not depart from the underlying ethos and principles of King III, it is fair to say that it represents a development of the King Code both in content and approach, as well as in the way it frames corporate governance. Thus, organisations that have implemented King III will typically find that they have a solid base from which to proceed. However they should also be prepared for the challenges associated with implementing King IV: the transition entails more than simply updating an existing list of practices. A fundamental rethinking is required because the rationale underpinning implementation of the King IV Code has been totally reconceived.

We highlight four directional shifts in King IV that are central to approaching implementation:

**King IV raises the bar on implementation, which is now focused on outcomes and disclosure.**

**Outcomes-based implementation:** Implementation of practices is not sufficient: this is perhaps the main difference between King III and King IV. King IV establishes a clear progression in an organisation’s thinking about its approach to corporate governance: from the desired outcomes of corporate governance to the principles that embody the organisation’s aspirations on the journey towards corporate governance, to selected governance practices that are intended to give effect to the aspirations expressed by the principles. **Taken together, the governance practices of the organisation should aim to promote the following governance outcomes: ethical culture; good performance; effective control and legitimacy.**

**Moving from “Apply or explain” to “Apply and explain” disclosure.** In line with the focus on outcomes, governing bodies must disclose the thought process behind their implementation approach. This, it will be recognised, is intended to encourage organisations to move beyond a tick-box approach to one that engages with the reasons for undertaking corporate governance in the first place. In so doing, organisations will have to actively consider how their governance practices align to the principles and contribute to achievement of the governance outcomes.

King IV comes into effect for organisations whose financial years start on or after 1 April 2017, which means those with a year-end of 31 March 2018 will be the first to report under the new Code. With around 15 months to go, the clock is ticking, and the time to start planning and communicating is now.

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Thus for all organisations, implementation of King IV and disclosure will be challenging. Implementation within the meaning of King IV will only be possible after some introspection to understand how the organisation’s practices achieve the principles and deliver the outcomes—implementation is not an end in itself, and King IV recommends but does not prescribe the practices that ought to be considered. A key consideration is the governing body’s perspective on how to approach corporate governance: Does it wish to lead in corporate governance, or simply be a follower?

At a practical level, implementation will entail mapping an organisation’s existing governance practices to the principles and desired outcomes of King IV, but this mapping will seldom be an easy correlation. King IV is designed to promote actions that lead to desired results and outcomes, rather than simply actions in their own right.

The organisation will also have to consider how it will explain what it did, and how this helped achieve the outcomes, through its corporate governance disclosures. Again, a simple listing of practices will be insufficient.

A stakeholder-inclusive approach, with some subtleties.

Like King III, King IV adopts a stakeholder-inclusive approach, recognising that the organisation exists within, and is affected by, the wider context of its material stakeholders. Indeed, King IV speaks of the need to give parity to all sources of value creation acknowledging that the organisation’s ability to create value for itself depends on its ability to create value for others.

Importantly though, and this is a point that may be missed, King IV also points to the duty of the governing body to act in the best interests of the organisation over the longer term. King IV thus recognises that the organisation will need to steer a course that strikes the appropriate balance in light of its current circumstances, something that inherently involves prioritisation and trade-off. Necessarily, that balance will alter throughout the organisation’s life cycle, and the identification and prioritisation of the organisation’s material stakeholders will differ as its circumstances change. Shareholders remain an important stakeholder group as providers of risk capital with statutory rights and protections.

Sustainable development and integrated thinking are among the underpinning philosophies of King IV. These concepts are all present in King III, but King IV emphasises their interconnectedness. Sustainability is recognised as a primary ethical and economic imperative. An organisation’s survival and success requires consideration of the “triples context” of the economy, society and the natural environment. This in turn requires the organisation and its governing body to think about the organisation’s responses to the challenges and opportunities that this context presents in an integrated way. This integrated thinking should lead to actions that form an integral part of a broader vision of the organisation’s approach to value creation over time; this whole process ought also to be reflected in the organisation’s external disclosures and reporting.

Finally tax has been specifically mentioned in the King Report. Although it was always implied that tax governance was an important consideration for organisations in prior King Reports it was never specifically addressed. The matters highlighted on tax in King IV are indicative of the challenging tax environment organisations find themselves in today and the need for the highest level of the organisation to be responsible for tax governance.

In the following pages, we highlight some of the main changes or issues raised in King IV, and what we believe their effect on organisations will be.

2 King IV, p 25.
Objectives

King IV’s objectives are to:

- Promote corporate governance as integral to running an organisation and delivering governance outcomes such as ethical culture, good performance, effective control and legitimacy.

- Broaden the acceptance of the King IV by making it accessible and fit for implementation across a variety of sectors and organisational types.

- Reinforce corporate governance as a holistic and interrelated set of arrangements to be understood and implemented in an integrated manner.

- Encourage transparent and meaningful reporting to stakeholders.

- Present corporate governance as concerned with not only structure and process, but also with an ethical consciousness and conduct.

An organisation’s survival and success requires consideration of the “triple context” of the economy, society and the natural environment.
## Principles of King IV

<table>
<thead>
<tr>
<th>No.</th>
<th>Principle</th>
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<tr>
<td>1</td>
<td>The governing body should lead ethically and effectively.</td>
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<td>2</td>
<td>The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture.</td>
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<td>3</td>
<td>The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen.</td>
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<td>4</td>
<td>The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process.</td>
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<td>5</td>
<td>The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance, and its short, medium and long-term prospects.</td>
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<td>6</td>
<td>The governing body should serve as the focal point and custodian of corporate governance in the organisation.</td>
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<td>The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.</td>
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<td>The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.</td>
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<td>The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.</td>
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<td>11</td>
<td>The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.</td>
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<td>12</td>
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<td>The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.</td>
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<td>14</td>
<td>The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.</td>
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<td>15</td>
<td>The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation's external reports.</td>
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<td>16</td>
<td>In the execution of its governance role and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.</td>
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<td>17</td>
<td>The governing body of an institutional investor organisation should ensure that responsible investment is practiced by the organisation to promote the good governance and the creation of value by the companies in which it invests.</td>
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Leadership, ethics and corporate citizenship

What has changed?

The order of these three principles is different from King III, and indicates the necessary sequence for attaining an ethical culture: the governing body must lead ethically and must then govern in a manner that helps embed ethics in the organisation; only then will the organisation be able to act ethically in the wider world, as a responsible corporate citizen. The board has a critical, catalysing leadership role to play, but to be successful it has to drive ethics downwards through the organisation, and then out into its ecosystem.

Another important change is the link between ethical and effective leadership. In line with the overall King IV focus, ethical leadership is not of itself the end goal, but rather the outcome it delivers—in this case, leadership that is effective.

How does it affect your organisation?

Because of the link between ethical leadership, an ethical corporate culture and ethical corporate citizenship, it is clear that ethics have to permeate everything that the organisation and its employees do. Thus, to cite a simple example, a governing body member would be acting unethically if he or she did not prepare properly for a board or board committee meeting. Even at that level, such conduct affects how effective the governing body member will be. Ethics, and ethical behaviour, underpins all of King IV.

A related impact is the notion of accountability, which means that governing body members, and by implication employees and also stakeholders, must be prepared to account for the way they discharge their responsibilities—including those that have been delegated.

It is worth emphasising that ethics are linked to sustainability and sustainable development; by their very nature these concepts demand a long-term view. Such a long-term perspective means recognising that ethical conduct often will involve consideration of dual outcomes; for example, balancing an anticipated negative impact on short-term profits or opportunities against anticipated positive long-term benefits.

Taking into account the complexity of tax, and in a move to highlight the importance of ethical governance in relation to tax policy.

Tax Policy: What does your organisation need to do?

King IV links responsible corporate citizenship to the governing body’s responsibility for ensuring that the organisation’s tax policy is responsible and transparent, and takes into account reputational repercussions.
What does your organisation need to do?

Starting with the governing body, everybody needs to take ownership of, and accountability for, everything that falls within their remit, even down to seemingly trivial things. Also give thought to how this accountability will be disclosed, how individuals will be measured—and held accountable for lapses in ethical practices (and thus diminished effectiveness).

King IV makes it clear that responsible corporate citizenship includes compliance with the Constitution of South Africa (including the Bill of Rights), the law, leading standards and adherence to the organisation’s own codes of conduct and policies. The latter represent the governing body’s approved policy and planning decisions made in the context of its corporate governance philosophy, including its ethical culture.

At a practical level, the governing body’s social and ethics committee has a key role to play in exercising oversight of organisational ethics, to ensure that the both governing body and the wider organisation are sufficiently equipped and on track to deliver on the goal of having an ethical culture (see Chapter 3). Further to this, the social and ethics committee charter may need revisiting to expressly incorporate these aspects of King IV Code, in addition to its statutory functions established in the Companies Act 2008, and its Regulations.

In line with the overall King IV focus, ethical leadership is not of itself the end goal, but rather the outcome it delivers – in this case, leadership that is effective.
Strategy, performance and reporting

What has changed?

**Strategy and performance (Principle 4):** In line with its underpinning philosophy of seeing the organisation as an integral part of society, King IV further embeds integrated thinking and integrated reporting concepts in governance oversight of strategy development and of strategy implementation and performance. Specifically, it recommends governing body responsibility for integrating value creation across the various forms of capitals into the organisation’s strategy. This includes ensuring, in the strategy-approval process, that management is challenged on how executing the proposed strategy may increase, decrease or transform those capitals. Similarly, in monitoring the implementation of the strategy, the governing body should ensure that the organisation responds to negative consequences of its activities and outputs in the triple context, and in relation to the various capitals it uses and affects.

**Reporting (Principle 5):** Governing bodies are responsible for setting the direction for the organisation’s approach to external reporting, including the integrated annual report. Taken together, an organisation’s reports should enable the organisation’s stakeholders to make informed assessments of the organisation’s performance and its prospects; in that context, governing bodies need to approve management’s bases for determining materiality, which is used to decide what information should be included in those reports.

Reporting includes the organisation’s corporate governance disclosures under King IV using the “apply and explain” basis.

How does it affect your organisation?

**Strategy and performance (Principle 4):** Organisations that have not yet embarked on an exploration of their triple context\(^3\) face the fundamental task of re-orienting their strategy and its implementation, along with the associated governance responsibility and oversight roles, in applying King IV’s underpinning philosophies. These philosophies are integrated thinking, the organisation as an integral part of society, corporate citizenship, shareholder inclusivity and sustainable development.

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\(^3\) That is, the combined context of the economy, society and the environment in which the organisation operates.
This is a significant exercise, and governing bodies will need to guide management in embedding these philosophies within the strategy, associated policy and processes that give effect to the strategy, and monitoring and reporting thereon.

**Reporting (Principle 5):** Mature implementers of integrated reporting that already produce an integrated report in accordance with the <IR> Framework in South Africa may only need to consider whether there is sufficient governance oversight of management’s process for preparing and presenting the integrated annual report envisaged in this principle and the associated recommendations. Less mature implementers may well find that a greater level of governance oversight is needed; for example, in relation to approving management’s process for determining materiality.

Organisations that have yet to embark on integrated reporting have the larger challenge of developing a governance oversight model for the organisation’s reporting, including direction and approach, and approval of management’s determination of the reporting frameworks and reporting standards to be used.

Organisations that have not yet embarked on an exploration of their triple context face the fundamental task of re-orienting their strategy and its implementation, along with the associated governance responsibility and oversight roles, in applying King IV’s underpinning philosophies.

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**What does your organisation need to do?**

**Strategy and performance (Principle 4):** A concerted and co-ordinated approach is needed to ensure that the governing body, management and employees at every level understand the philosophies of King IV as adopted and applied by the organisation, and what they mean for the way the organisation conducts its business and activities at every level. Particular focus will need to be applied to understanding the resources and relationships connected to the various forms of capital the organisation uses and affects, and how value creation occurs over the short, medium and long term.

**Reporting (Principle 5):** In the sphere of external reporting, governing bodies of many organisations may need to consider how material information about the organisation’s strategy and associated risks, and its performance outcomes and value creation, is communicated to the stakeholders—and whether the current approach to communication and reporting is sufficient. Key considerations are whether the reporting frameworks/reporting standards used are appropriate, whether the material financial and non-financial information reported is reliable for such assessments, and how the quality of reporting can be improved overall.

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Governing structures and delegation

King IV’s recommended practices provide greater explanation of the functions of the lead independent director.

What has changed?

Governing body composition (Principle 7): A governing body’s ability to govern the organisation effectively fundamentally depends on its composition; only if it has the appropriate balance of knowledge, skills, experience, diversity and independence will it be able to discharge its responsibilities optimally. While King IV highlights the need for the governing body to include a sufficient number of members categorised as independent, and to set and achieve diversity targets (introduced as a recommended practice), its key message is that the composition of the governing body must be balanced across the variety of attributes in such a way as to promote effective governance and better decision-making. Critical to note is that all members of the governing body are expected to apply an independent and objective mind-set in performing their governance roles and responsibilities so that they are always able to lead, act and take decisions in the best interests of the organisation.

In a bid to improve the process for appointing new governing body members, King IV recommends independent investigation of candidates’ backgrounds, and independent verification of their qualifications. In this context, professional director qualifications obtained through a national Institute of Directors, such as the Institute of Directors in Southern Africa, serve to establish an objective and independent signal of appropriate qualifications for members of governing bodies.

To strengthen the ability of members of the governing body to apply an objective and independent mindset in performing their roles and responsibilities, King IV sets out the new recommendation that each governing body member should submit, at least annually or whenever there are significant changes, a declaration of all their and their related parties’ financial, economic and other interests. This is supplemented by a further recommendation that the members be required, at the beginning of every governing body or committee meeting.

Principle 6: The governing body should serve as the focal point and custodian of corporate governance in the organisation.

Principle 7: The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively.

Principle 8: The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties.

Principle 9: The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness.

Principle 10: The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities.
meeting, to declare whether they have a conflict of interest in respect of any matter on the agenda.

In relation to leadership roles and functions on the governing body, King IV’s recommended practices provide greater explanation of the functions of the lead independent director. As a result, the importance of the lead-director role is emphasised, particularly in the context of maintaining the effectiveness of the governing body, and contributing to healthy interpersonal dynamics between members, not least when challenging situations arise.

Governing body committees (Principle 8): King IV does not prescribe what committees the governing body should establish, subject of course to those that are mandated by law - for example, for certain types of companies and public-sector entities. Rather, it emphasises that the governing body should exercise its judgment to determine whether and when to delegate particular roles and responsibilities, either to individual members of the governing body, or to standing or ad-hoc committees of the governing body.

Audit committees: King IV acknowledges the statutory duties and accountability of audit committees legally mandated for certain types of companies, and also explains the roles and functions of audit committees otherwise established under the governing body’s delegated authority. King IV emphasises the governing body’s ultimate accountability for all governance responsibilities delegated to the audit committee, including approval of the organisation’s annual financial statements.

A new recommendation of King IV, in line with best practice for audit committees set out in governance codes used in other countries, is that the audit committee members should collectively have the necessary financial literacy, skills and experience to perform the audit committee role and functions effectively. This is essential in light of the particular types of governance functions this committee ordinarily performs for the governing body.

The recommended disclosures by the audit committee in relation to its functions (statutory or otherwise) are also expanded to include, among other things, significant matters that the committee considered in relation to the annual financial statements, and how it addressed those matters; as well as the audit committee’s views on the quality of the external audit performed, with reference to audit-quality indicators.

Further, the audit committee’s statement on whether it is satisfied that the external auditor is independent of the organisation should address significant changes in the organisation’s management that may mitigate familiarity risk. Governing body performance evaluation (Principle 9): The recommended arrangements for performance evaluations of the governing body have changed, introducing both formal and less formal periodic processes. A formal evaluation of the governing body, its committees and the members as a whole and the chair should be scheduled biennially. In every other year, the governing body should schedule and perform its own informal evaluation process for itself, its committees, the members as a whole and the chair. The governing body may decide to have the formal evaluation facilitated externally, and it should approve the methodology to be followed.

Appointment and delegation to management (Principle 10): In line with the key governance function of selecting and appointing the organisation’s CEO to lead the organisation under the governing body’s direction and oversight, King IV contains an emphatically stated recommendation that the CEO is accountable, and reports, to the governing body.5

CEO performance should also be evaluated at least annually against agreed performance measures and targets. Recommendations on arrangements for delegation of the governing body’s powers and functions to management via the CEO should be effected through a delegation of authority framework approved by the governing body. This framework should articulate its direction on reservation and delegation of power to the organisation’s management.

5 Arrangements for selection and appointment of the CEO of a public-sector entity are set out in law, and accordingly the accountability arrangements that apply to CEOs of these entities are different. King IV tackles this issue in the relevant sector supplement (Part 6.6).
How does it affect your organisation?

**Governing body composition (Principle 7):** Balancing competing needs to obtain the right mix of skills, competencies, capabilities, knowledge and diversity across both race and gender on the governing body, is not without its challenges. The principles set out in King IV are designed to highlight and reinforce the governing body’s leadership role as the focal point and custodian of corporate governance, responsible for setting the tone of the whole organisation through ethical and effective leadership.

**Governing body committees (Principle 8):** When it comes to delegating its responsibilities, the governing body must exercise its judgement in light of the need to enhance its performance and effectiveness. King IV highlights that, subject to legal requirements applicable to the type of organisation, the governing body has considerable flexibility in deciding whether and how to delegate its role and functions to committees formed either as standing committees or on an ad-hoc basis, taking account of proportionality. However whenever delegation occurs, the recommended process should be followed to ensure such delegation is both clear and effective, and will achieve the intended purpose of enhancing the overall effectiveness of the governing body.

**Audit committees:** King IV expands the role of audit committees beyond their statutory functions (where applicable). This expanded role includes oversight of management’s arrangements to establish combined assurance, and of the relationship with the external auditor, and of internal and external audit quality. It places new emphasis on ensuring that the collective skills, competency and capability of audit committee members, including their level of financial literacy, are appropriate. Membership and composition of audit committees need to be considered in light of the nature of the organisation and its business, including its relative complexity and industry sector.

**Governing body performance evaluation (Principle 9):** Regular evaluations of governing bodies are important for continuous assessment of their performance. Sometimes, evaluations are performed merely to be able to state compliance with the King Code, or as part of setting the scene for motivating envisaged changes to the composition of the governing body or its committees. The evaluation process is a critical self-check process, and so governing bodies need to consider how to ensure it works well and is effective in boosting the effectiveness of the governing body.

**Appointment and delegation to management (Principle 10):** The governing body’s delegation of its leadership roles and functions to management through the CEO role is a critically important part of its governance role. Delegation requires appropriate checks and balances to ensure the CEO’s accountability to the governing body, which would include management reporting to the governing body in a manner that promotes the governing body’s effective leadership and decision-making.

**What does your organisation need to do?**

**Governing body composition (Principle 7):** Ensure that the governing body addresses its composition with the overarching aim of enhancing its overall effectiveness, including due attention to diversity considerations appropriate to achieving this aim. Particular focus should be given to...
succession planning to help ensure that the governing body has the right balance of experience, skills and competencies, and race/ gender profile to be able to lead the organisation and its business activities in line with the principles of King IV, and to achieve its governance outcomes, over time.

**Governing body committees (Principle 8):** The governing body needs to re-evaluate the reasons for establishing the various committees, and how best to configure them to perform certain governance roles and responsibilities on behalf of the governing body in light of King IV, coupled with the statutory functions (where applicable). It is also important to clarify whether committee roles and responsibilities, and their accountability and reporting functions to the governing body, are sufficiently well articulated in their respective terms of reference. Some committee terms of reference/ charters may need re-evaluation; for example those of the audit committee, the remuneration committee and the social and ethics committee.

Further considerations are whether committee composition reflects the correct balance of experience, skills and competencies (with financial literacy key for the audit committee), and ethical leadership, to discharge the committee’s governance responsibilities effectively. It must also be borne in mind that the qualifications and experience of the members of the governing body should be disclosed.

Audit committees need to consider how their oversight of audit quality - for both the internal and external audit functions - can best be achieved in a manner that promotes and supports achievement of the outcome of audit quality. This should be done with reference to global standards that inform audit quality, with reference to local conditions, and in consultation with the organisation's internal auditors and the appointed external auditor. Measurement of audit quality outcomes should be developed applying appropriate measures. While audit quality indicators established at global level by independent regulators for their particular regulatory purposes may be relevant considerations, the governing body/ audit committee should apply its own judgment on how best to support and encourage audit quality. A key consideration is how to support auditor independence as part of achieving audit quality outcomes. Other relevant considerations are the organisation's particular circumstances (in particular, the nature, size and complexity of the business), and the unique objectives associated with the different types of audit functions as part of the organisation's wider combined assurance model.

**Governing body evaluation (Principle 9):** Governing bodies need actively to consider whether the current arrangements for evaluating their performance serve as a useful mechanism for encouraging overall governing body effectiveness, aligned with achieving the principles and governance outcomes that King IV envisages for effective governance leadership.

The performance-evaluation exercise is an important part of the chair’s leadership toolkit: he or she needs to ensure the methodology used for these evaluations is fit for purpose, and inspires excellence in the attitudes and performance of the governing body in delivering ethical and effective leadership.

**Appointment and delegation to management (Principle 10):** Assess whether the arrangements in place for delegating leadership of the organisation to the CEO are adequate, and specifically whether they effectively ensure the CEO’s full accountability to the governing body. In particular, the governing body should consider whether the quality of management reporting, through the CEO and the CEO’s management team, is adequate and sufficiently robust (with reference to the effectiveness of the combined assurance arrangements) to provide the governing body with high-quality, relevant and reliable information for performing its governance leadership and oversight functions, and making good decisions.

Audit committees need to consider how their oversight of audit quality - for both the internal and external audit functions - can best be achieved in a manner that promotes and supports achievement of that outcome.
Governance functional areas

Oversight of the organisation’s processes for identifying and mitigating risk should be clearly linked to the business strategy.

What has changed?

Risk governance (Principle 11): The definition of risk in King IV includes recognition that uncertainty that gives rise to risk may also create opportunity for organisations. Risk governance in King IV acknowledges that treatment of uncertainty should not only be in the context of risk management. Governing bodies need to be alive to the opportunities that arise out of uncertainty, and ensure that both the governing body and management are even-handed in their approach to uncertainty both in developing and implementing strategy, and risk management.

Technology and information governance (Principle 12): King IV remains consistent with King III in that it states that the governing body should govern technology and information in a way that supports the organisation in setting and achieving its strategic objectives. However, King IV distinguishes between governance oversight of the organisation’s information assets, and governance oversight of the technology infrastructure used to generate, process and store that information. This approach is necessary, as a lack of governance oversight or management attention to either one holds different risks for the organisation. Both areas are viewed as critical and thus deserving of attention from management and the governing body.

Remuneration (Principle 14): King IV links governance of remuneration with the achievement of strategic objectives and positive outcomes across in the triple context of the organisation, in the short, medium and long terms. Fair and responsible remuneration, and transparency in the way remuneration occurs, remain at the centre of governance best practice for remuneration. The governing body’s responsibility is to set the direction for how remuneration should be approached and addressed on an organisation-wide basis.

Principle 11: The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives.

Principle 12: The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives.

Principle 13: The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen.

Principle 14: The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term.

Principle 15: The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation’s external reports.
King IV sets out detailed recommendations for the governing body with respect to the content of the organisation’s remuneration report, which should contain background information for context and an overview of the main provisions of the remuneration policy, and should disclose details of all remuneration awarded to individual members of the governing body and executive management. The remuneration policy disclosure should include an illustration of how different performance outcomes would affect the amounts paid to executive management, on the basis of a single, total figure. Similarly the implementation report should include a single, total figure of remuneration received/receivable for each member of executive management. The move to include a single, total figure of remuneration for each executive drives greater transparency and is presumably intended to assist with voting on remuneration.

A major change is the introduction of a non-binding shareholder vote in respect of the remuneration policy and its implementation. This mechanism is intended to promote the alignment of remuneration policy with King IV governance outcomes, and specifically with Principle 14. In that sense, the governing body and management will need to devote effort to initiate effective shareholder dialogue on remuneration, both as a precursor to shareholders exercising their non-binding vote at the AGM, and also in the event that shareholder votes do not achieve the recommended approval level of 75 percent. This is a more stringent approval threshold than the 50 percent approval mandated in governance codes or legislation applied in other countries.

Governing bodies also need to disclose what steps they will take in the event that either the remuneration policy or its implementation receive less than 75 percent of the votes exercised at the AGM.

**Combined assurance (Principle 15):** Key responsibilities of the governing body include oversight of the organisation’s internal arrangements to enable an effective internal control environment, and to support the integrity of information used for internal decision-making (by management and the governing body) and in external reporting. King IV further describes the various assurance services and functions that, taken together, make up what it terms the organisation’s “combined assurance model”.

The combined assurance model is expected to cover all material information, as relevant both to the functioning of management and the governing body, and to external reporting.

**How does it affect your organisation?**

**Risk governance (Principle 11):** Governing bodies need to be even-handed in addressing uncertainty; oversight of risk should take account of responses that hold strategic opportunity for value creation, and risk management responses as appropriate. An unduly risk-averse board may not appreciate the strategic opportunity that is often present in uncertainty, and accordingly may fail to capture or realise it.

**Technology and information governance (Principle 12):** Governing bodies should assume responsibility for the governance of technology and information, including where they may overlap. It is also important that the various committees and other governance structures understand the distinction as context for performing their work agendas. For example, the audit committee may have delegated authority for oversight of management’s technology investments (infrastructure and applications), and also for oversight of management’s approach to maintaining and protecting the organisation’s information assets, within an enterprise-wide information system.

**Remuneration (Principle 14):** Under King IV, shareholders have considerably greater ability to influence the organisation’s remuneration policy and its implementation for executive management – in practice, an unfavourable vote could be perceived as a vote of no confidence in management. Transparency is also a critical factor; and the governing body has to be clear about what steps it will take in the event of a negative vote. It can be anticipated that these practices will drive higher levels of engagement with shareholders on remuneration matters, and that remuneration committees and management will need to pay closer attention to the design, implementation and disclosure of remuneration policies and practices, particularly as they affect members of the governing body and executive management. In addition, the question of how the single, total figure of remuneration is calculated may well vary between organisations and could become controversial.
Taken together, these significant changes affecting how remuneration is governed— including the link to the achievement of strategic objectives and positive outcomes in the triple context—mean that the remuneration committee’s mandate and work agenda will increase. As a further consideration, the composition of the remuneration committee will be important to be able to implement these recommended practices over time, and the skills and competencies of the committee members will require attention.

**Combined assurance (Principle 15):** It is critical that that governing body is satisfied about the effectiveness of the combined assurance model, so that it can be relied on to support the integrity of information used by management and the governing body. On enhancing the effectiveness of governance decision-making, King IV recommends that the governing body should assess the information with objectivity and professional scepticism, and by applying an enquiring mind to form its own view on the integrity of information and reports, and on effectiveness of the underlying control environment of the organisation. This is critical because, in the event that the information on which the governing body or management relies is compromised, either by inaccuracy or omission, their decisions might not be in the organisation’s best interests.

**What does your organisation need to do?**

**Risk governance (Principle 11):** Oversight of the organisation’s processes for identifying and mitigating risk should be clearly linked to the business strategy. This will enable the governing body and management to appreciate what opportunities, if any, are present in the areas of uncertainty the organisation faces, and what effect they might have for further development or implementation of the strategy. Effective governing bodies need members (backed by governance structures) who are capable of understanding the organisation’s strategy, and the effects of uncertainty (both risk and opportunity) on its strategic objectives.

**Information and technology governance (Principle 12):**
The governing body needs to ensure that management defines the organisation’s information assets, and also the types of technology needed within the organisation, either to be able to operate or to differentiate itself within its industry. These definitions are ordinarily specific to the organisation and/ or its operating context, and therefore need to be regularly revisited to stay up to date with the pace of technological change and new uses for data as relevant to its operations and environment.

**Remuneration (Principle 14):** In light of the significant shift in King IV to strengthen application of the stakeholder-inclusive approach, governing bodies will need to invest more time and effort in their oversight of stakeholder relations. Companies can no longer imagine that an AGM offers sufficient contact with their shareholders. In view of shareholders’ existing powers, coupled with King IV’s envisaged approach of enabling the collective shareholder voice, organisations will need to be able to identify who their shareholders are, and be aware of how they have exercised their votes. This may be easier said than done given sometimes intricate shareholding structures.

The organisation must give additional attention to preparing the remuneration report and the elements that King IV recommends it should contain. The governing body and remuneration committee will need to reach agreement about the information that will be disclosed in the report, and how it is prepared; for example, with respect to calculation of the single, total figure of remuneration for each member of the executive.

**Members of the remuneration committee will need to have the right skills, including competence in business strategy and in outcomes and value measurement, to be able to develop appropriate links between the remuneration policy and the achievement of strategic objectives and positive outcomes within the organisation’s triple context.**

**Combined assurance (Principle 15):** Investing in functions and processes to establish effective combined assurance as envisaged by King IV, even on a proportionate basis, will typically require the organisation to incur significant costs in time and money. However, the alternative costs that may arise from poor or under-informed decision-making by the governing body or management may be severe, and accordingly the costs associated with combined assurance need to be weighed in that context. These consequential risks therefore make the design of an appropriate combined assurance model a worthwhile investment for all organisations. In light of these risks, the governing body’s key oversight role is to challenge whether management’s combined assurance model is fit for purpose.
King IV distinguishes between governance oversight of the organisation’s information assets, and governance oversight of the technology infrastructure used to generate, process and store that information.
Stakeholder relationships

What has changed?

**Stakeholder inclusivity (Principle 16):** Recognising that the concept of stakeholder inclusivity rests on attention to stakeholder relations at governance level, King IV places responsibility for governance of stakeholder relationships (including shareholder relationships in the case of a company) with the governing body. Specifically, the recommended practice is that the governing body should set the direction for and approve related policy on how those relationships should be approached.

Critically, this principle points to the adoption of a governance approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time.

In the case of companies, King IV recommends that the board of directors of a company encourages the company’s proactive engagement with shareholders, specifically including at the company’s annual general meetings. The governance approach for groups of companies is also addressed, and recommended practices are set out for governance of corporate groups that delineate the governance responsibilities of both the group’s board and the boards of the group subsidiaries.

**Institutional investors (Principle 17):** The governing body of an institutional investor is responsible for ensuring that the organisation practices responsible investing, including taking steps to ensure that their investees also promote good governance and long-term value creation. This concept demonstrates King IV’s foundational belief that organisations exist within a context of interconnected entities.

**How does it affect your organisation?**

**Stakeholder inclusivity (Principle 16):** Governing bodies will need to take a proactive approach in their oversight of how stakeholder relationships are governed, including shareholder relationships. A critical area is ensuring that the governing body’s direction extends to approving policy that enables the balance between stakeholder interests to be adjusted as appropriate to the organisation’s life cycle. A helpful approach is to set policy to guide management in determining who the organisation’s material stakeholders are, and to establish formal mechanisms for engagement and communications with stakeholders, including the use of dispute resolution mechanisms and associated processes.

For corporate groups, good governance practices need to be developed at both the group holding company level and the group subsidiary level. In light of the subsidiary’s separate juristic existence, the board of a subsidiary should not merely adopt the group policies and frameworks without further consideration. These boards will need to take decisions about their adoption of such policies and frameworks with
due consideration of their own particular governance obligations owed to the subsidiary company, and its particular circumstances.

**Institutional investors (Principle 17)**: King IV’s apply-and-explain disclosure regime encourages the board of an institutional investor to explain how it has ensured that the organisation practises responsible investment.

**What does your organisation need to do?**

**Stakeholder inclusivity (Principle 16)**: Governing bodies are advised to make stakeholder relationships a regular governance agenda item – in King IV, governance oversight of this area is seen as a process rather than a goal. This is in line with King IV’s emphasis on integrated thinking, as well as the insight that an organisation’s context is dynamic. The need for governance oversight in this area is further underlined by the developments in remuneration governance practice, and the need to engage with shareholders who vote against remuneration policies or implementation (see Chapter 4).

Boards of holding companies should ensure that the boards of its subsidiaries are involved in development of the group governance framework to be applied across the group. In turn, boards of subsidiary companies should engage with how that framework is developed and implemented.

Implementation would include any delegation of responsibility to board committees of the holding company, keeping in mind their fiduciary duties owed to the subsidiary company as an independent juristic person. In that context the board of the subsidiary should disclose the extent to which it has adopted the holding company’s governance framework and related policies and procedures.

**Institutional investors (Principle 17)**: As part of giving effect to Principle 17, institutional investors will effectively need to opt into the Code for Responsible Investing (CRISA Code) or else provide disclosure and reporting that aligns with the CRISA Code. This is not explicit in King IV, but Principle 17 has this effect.

**Governing bodies will need to take a proactive approach in their oversight of how stakeholder relationships are governed, including shareholder relationships.**
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