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Nkonki King IV™ Summary

What Organisations Need to Know About the New Code of Corporate Governance

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Introduction

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Through its annual integrated reporting awards for the JSE Top 100 listed companies and the Schedule 2 State Owned Companies, Nkonki has been tracking the progress of corporate reporting in both private and public sector organisations for the past six years.

We believe that corporate reporting – and more latterly, integrated reporting – in this country, with its deep roots in King III and its predecessors, as well as its links to the International Integrated Reporting Council's (IIRC) International Integrated Reporting <IR> Framework, supplies an excellent lens through which to view the improvement in corporate governance within these organisations. We have been encouraged by the evolution shown during this six-year period.

However, we acknowledge that advancement in terms of corporate reporting will not bring about the change to transparency, corporate governance, and ultimately, financial stability and sustainable development, on its own. The work being done by the IIRC to encourage the three shifts, i.e. from a financial capital market system to an inclusive capital market system; from short-term capital markets to sustainable capital markets; and from silo reporting to integrated reporting, plays a vital role in helping achieve these objectives.

These efforts have been given a tremendous boost by the launch of the King IV™ Code of Corporate Governance[1], which we believe will provide firm guidance in terms of the expected path forward for both listed entities and other organisations in our country to follow.

Moreover, Nkonki welcomes the Code's aspirations to achieve a move away from a 'box-ticking' exercise to a mindful application of corporate governance principles, and from a mindset of grudge compliance to an appreciation of the true value-add that organisations stand to benefit from when they apply corporate governance as outlined in the Code, as well as the fact that it incorporates both global public sentiment and international regulatory change since King III was issued in 2009.

In conclusion, while South Africa has long been acknowledged as a leader both in corporate governance and corporate and integrated reporting, to remain in this position, it is essential to acknowledge global developments, and in King IV™ this has been done very effectively. As this is merely intended as a summary of the Code, Nkonki recommends that the reader also has familiarity with the IoDSA document.

1 The King IV™ Report on Corporate Governance for South Africa 2016, Institute of Directors Southern Africa" is owned by the Institute of Directors in Southern Africa NPC with all rights reserved and is available at http://www.iodsa.co.za/?page=AboutKingIV

At a glance

The objectives of King IV™

The overall objectives of the new Code 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 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.

Effective date:

King IV™ is effective in respect of financial years commencing on or after 1 April 2017. King IV™ replaces King III in its entirety.

The main differences to King III

- King IV™ is structured as a framework that can be applied more easily to listed and unlisted companies, profit and not-for-profit entities, as well as private and public entities (the Code now refers to "organisations" and "governing bodies" and not "companies" and "boards" as an example). Because it is aimed at a greater application than just listed companies, there are now sector supplements available for Municipalities, NPOs, SMEs, State Owned Entities and Retirement Funds.
- While King III called on companies to apply or explain, King IV™ assumes application of all principles, and requires entities to explain how the principles are applied – thus, apply and explain. In line with the outcomes-based focus of King IV™, governing bodies must now describe the process behind the implementation approach giving effect to each principle.
- The 75 principles have been consolidated into 16 (+1)[2] principles, each linked to very distinct outcomes. In King IV™, there is a clear differentiation between principles, practices and governance outcomes. The focus is also on transparency and targeted, well-considered disclosures. Thus, it aims to establish the clear progression in an approach to corporate governance: linking the principles an organisation needs to think about to the practices it needs to apply in order to achieve the desired outcomes, i.e. ultimately an ethical culture, good performance, effective control and legitimacy.
- Corporate governance considers and is based on ethical leadership, attitude, mindset and behaviour – King IV™ places far more accountability on the governing body to ensure the governance outcomes of an ethical culture, good performance and effective control within the organisation. Thus, the overarching onus is now on the governing body to lead ethically itself, and govern in a way that embeds ethics in the organisation.
- Remuneration receives greater prominence in line with global developments and increased stakeholder activism. Principle 14 states: *"The governing body should ensure that the organisation remunerates fairly, responsibly and transparently to promote the achievement of strategic objectives and positive outcomes in short, medium and long term".* While both King III and King IV™ recommend that the company's remuneration policy be submitted to shareholders for their approval by vote, King IV™ goes further in that engagement with the shareholders will be necessary if the remuneration policy or its implementation is not supported by a vote of at least 75% of voting shares.
- There is a new emphasis on the roles and responsibilities of stakeholders. Principle 16 deals with this specifically, *"In the execution of its governance roles and responsibilities, the governing body should adopt stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time"*. The governing body is now tasked with assuming responsibility for the governance of stakeholder relationships by setting the direction for how these relationships will be approached and conducted in the organisation, and should exercise ongoing oversight of stakeholder relationship management.
- There is an explicit acknowledgement of information and technology as separate as highlighted in Principle 12: *"The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives".* Of critical importance is that King IV™ recognises information as a corporate asset that is part of the company's stock of intellectual capital and confirms the need for governance structures to protect and enhance this asset. It also places obligations on the governing body regarding the management, protection and oversight of technology and information, including the development of a 'cyber security plan'. The governing body is further required to carry out a formal review on the adequacy and effectiveness of the organisation's technology and information function, and to comply with certain disclosure requirements with respect to technology and information.
- Auditor independence requirements are expanded in King IV™, and the Audit Committee's duty to oversee auditor independence is now aligned with the Independent Regulatory Board for Auditors (IRBA) rule of December 2015, which requires all auditors' reports on annual financial statements (AFS) to disclose the number of years for which the audit firm has been the auditor of the organisation. King IV™ also prescribes certain factors to be considered by the Audit Committee when overseeing auditor independence.
- The concept of "combined assurance" has been expanded in King IV™ to incorporate all assurance role players, and to emphasise that assurance is about having an adequate and effective control environment and strengthening the integrity of reports for better decision-making. Assurance now includes line functions that own and manage risks; the organisation's specialist functions that facilitate and oversee risk management and compliance; internal assurance providers; and external assurance providers. It places the onus on the governing body to assume responsibly for assurance by setting the direction concerning the arrangement for assurance services and function.

2 Principle 17 relates specifically to institutional investor organisations.

A stronger definition of corporate governance

Corporate governance in King IV™ is defined as *"… the exercise of ethical and effective leadership by the governing body towards the achievement of the following governance outcomes…"*

There are given as:

- Ethical culture
- Good performance
- Effective control
- Legitimacy

There is also an interdependence between ethical and effective leadership, which should complement and reinforce one another.

Ethical leadership	Effective leadership
Exemplified by integrity, competence, responsibility and accountability.	Results-driven, it is about achieving strategic objectives and positive outcomes.
Involves the anticipation and prevention, or otherwise amelioration, of the negative consequence of an organisation's activities and outputs on the economy, society and the environment and the capitals it uses and affects.	It includes, and goes beyond, an internal focus on effective and efficient

The underpinning philosophies of King IV™

The ultimate objective of the new Code is sustainable development, which is defined as *"development that meets the needs of the present without compromising the ability of future generations to meet their needs".* This is a primary ethical and economic imperative in terms of the Code.

- **Integrated thinking =** Takes account of the connectivity and interdependencies between a range of factors that can affect an organisation's ability to create value over time.

- **The organisation as an integral part of society =** Organisations operate in a societal context, which they affect and by which they are affected.

- **Stakeholder inclusivity =** There is an interdependent relationship between the organisation and its stakeholders, and the organisation's ability to create value for itself depends on its ability to create value for others. An organisation becomes attuned to the opportunities and challenges posed by the triple context in which it operates by having regard to the needs, interests and expectations of material stakeholders.

- **Corporate citizenship =** As the organisation is an integral part of society, it has corporate citizenship status. This status confers rights, obligations and responsibilities on the organisation towards society and the natural environment on which society depends.

“The 21st century has been characterised by fundamental changes in both business and society. These fundamental changes provided the context within which the King Committee set out to draft King IV, and have influenced both its contents and approach.”

King IV™ in summary

Leadership by the Governing Body

The governing body's primary roles and responsibilities:

1. Steers and sets strategic direction
2. Approves policy and planning
3. Oversees and monitors
4. Ensures accountability

Principles

The principles embody the aspirations of the journey towards good corporate governance

Principle 1 - "The governing body should lead ethically and effectively"

Principle 2 - "The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture"

Principle 3 - "The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen"

Principle 4 - "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"

Principle 5 - "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"

Principle 6 - "The governing body should serve as the focal point and custodian of the 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 contributes to role clarity and the effective exercise of authority and responsibilities"

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 it 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"

Principle 16 - "In the execution of its governance roles 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"

Principle 17 - "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"

Practices

Practices support and give effect to the principles

Governance Outcomes

The benefits that organisations could realise through good governance:

- Ethical culture
- Good performance
- Effective control
- Legitimacy

The Principles and their practices

King IV™ has 16 principles applicable to all organisations, and a 17th principle applicable to institutional investors. There are 208 recommended practices in total for the 16 principles and an additional six for principle 17.

Principles

Principle 1

"The governing body should lead ethically and effectively"

Recommended practices:

- Members of the governing body should individually and collectively cultivate the following characteristics and exhibit them in their conduct:
  - Integrity
  - Competence
  - Responsibility
  - Accountability
  - Fairness
  - Transparency
- The governing body should embody these ethical characteristics to offer effective leadership that results in achieving strategic objectives and positive outcomes over time.
- The arrangements by which members of the governing body are being held to account for ethical and effective leadership should be disclosed, and these include, but are not limited to, codes of conduct and performance evaluations of the body and its members.

Principle 2

"The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture"

Recommended practices:

- The governing body should assume responsibility for the governance of ethics by setting the direction for how ethics should be approached and addressed by the organisation.
- It should approve codes of conduct and ethics policies.
- It should ensure that these encompass the organisation's interactions with stakeholders and broader society and address key ethical risks.
- The governing body should ensure codes of conduct and ethics policies provide for arrangements that allow employees and other stakeholders to be familiar with the organisation's ethical standards by publishing these on the website, or other platforms and media; by incorporating these into supplier and employee contracts, and by including them in employee induction and training programmes.
- The governing body should delegate the implementation and execution of codes of conduct and ethics policies to management, but exercise ongoing oversight of the management of ethics to ensure it results in the desired outcomes in the key areas as outlined in the Code.
- Disclose how ethics are being governed and managed, key focus areas, monitoring measures and how ethical outcomes are addressed. Future focus areas should also be disclosed.

Principle 3

"The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen"

Recommended practices:

- The governing body should assume responsibility for corporate citizenship by setting the direction for how this should be approached and addressed.
- This includes compliance with the Constitution of South Africa (including the Bill of Rights), the law, leading standards and own policies and procedures, and adherence to the organisation's own purpose and values, strategy and conduct.
- The governing body should oversee that the organisation's purpose and values, strategy and conduct are in keeping with it being a responsible good corporate citizen.
- The governing body should continually oversee and monitor how the organisation's activities and outputs affect its status as a good corporate citizen, and measure these against agreed targets in key areas such as the workplace, the economy, society and the environment.
- The following must be disclosed in relationship to corporate citizenship: an overview for governing and managing corporate citizenship, current and future focus areas, measures taken to monitor the organisation's efforts, and how corporate citizenship outcomes are addressed.

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Principle 4

"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"

Recommended practices:

- The governing body should steer and set the direction of the organisation for realising its core purpose and values through its strategy.
- It should delegate to management the formulation and development of the organisation's short, medium and long-term strategy, and thereafter approve such strategy with reference to the timelines and parameters which determine the meaning of short, medium and long-term; the risks, opportunities and material issues connected to the triple context in which the organisation operates; the extent to which the strategy depends on the resources and relationships connected to the various forms of capital; the legitimate and reasonable needs, interests and expectations of stakeholders; the changes in the six capitals that may result from the execution of the strategy; and the interconnectivity and interdependencies of all of the above.
- The governing body should approve the policies and operational plans developed by management, including key performance measures and targets, for assessing the achievements of strategic objectives and outcomes.
- It should delegate the implementation of approved policy and operational plans to management, but exercise ongoing oversight of these against agreed-upon performance measures and targets.
- The governing body should oversee that there is ongoing assessment and response to the negative consequences of the organisation's activities and outputs in the triple context in which it operates and the capitals which it uses and affects.
- It should also be alert to the organisation's general viability with regards to its reliance and effect on the capitals, its solvency and liquidity and its status as a going concern.

Principle 5

"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"

Recommended practices:

- The governing board should assume responsibility for setting the direction, approach and conduct for reporting.
- It should approve management's decisions regarding which reporting frameworks should be used, considering legal requirements and the audience of the various reports.
- It should oversee that the various reports – including the AFS, sustainability report, social and ethics committee report, and other online or printed reports – are issued in compliance with legal requirements and meet the reasonable and legitimate needs of material stakeholders.
- The governing body should ensure that an integrated report is issued at least annually, either as a stand-alone report that connects the more detailed information in other reports and addresses the matters that could significantly affect the organisation's ability to create value; or as a distinguishable, prominent and accessible part of another report that also includes the AFS and other reports that must be issued to comply with legal provisions.
- It should approve management's bases for determining materiality for the purposes of deciding which information should be included in external reports, and ensure the integrity of these reports as provided for in the Code (Part 5.4).
- The body should oversee that the following information is published on the organisation's website and on other platforms/media, which makes it accessible by stakeholders: corporate governance disclosures as required by the Code itself, integrated reports, AFS, and other external reports.

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Principle 6

"The governing body should serve as the focal point and custodian of the corporate governance in the organisation"

Recommended practices:

- The governing board should exercise its leadership role by steering the organisation and setting strategic direction, approving policy and planning that gives effect to this; overseeing and monitoring implementation and execution by management; and ensuring accountability for organisational performance by reporting and disclosure, amongst others.
- It should thus have a charter which documents its roles, responsibilities, membership requirements and procedural conduct that is regularly reviewed.
- It should also approve a protocol to be followed if it, its committees or any members need to get external, independent professional advice at the cost of the organisation on matters in their scope of duty; and one for non-executive members to follow to get documentation and set up meetings with management.
- Disclose the number of meetings held during the reporting period and the attendance thereof, and whether the governing body is satisfied that it has fulfilled its responsibilities in accordance with its charter.

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"

Recommended practices:

Composition of the governing body

- The governing body should assume responsibility for its composition by setting the direction and approving the processes for attaining an appropriate balance of knowledge, skills, experience, diversity, and independence to objectively and effectively discharge its role and responsibilities.
- When considering an appropriate number of members, it should consider the ideal mix of knowledge, skills and experience needed to govern the organisation; the mix of executive, non-executive and independent non-executive members; sufficiency in terms of number of members that qualify to serve on its committees; quorums; regulatory requirements and diversity targets.
- It should comprise a majority of non-executive members, most of whom should be independent.
- As a minimum the CEO and at least one other executive should be appointed to the governing body.
- The governing body should promote diversity in its membership including field of knowledge, skills and experience, as well as age, culture, race, gender.
- It should set targets for race and gender representation in its membership.
- It should establish an arrangement for the periodic, staggered rotation of its members to invigorate its capabilities, and establish a succession plan for its membership, including the identification, mentorship and development of future members.

Nomination, election and appointment of members to the governing body

- The governing body must approve the nomination of candidates and ensure that the process for nomination, election and appointment is formal and transparent.
- Before nominating a candidate, the governing body should consider the collective knowledge, skills and experience required, the diversity needed, as well as whether the candidate meets the appropriate fit and proper criteria.
- It should also consider the performance of a member prior to nomination for re-election, including attendance at meetings of the governing body and its committees.
- For the re-election of a potential non-executive member, a candidate should be requested to supply details of professional commitments and a statement that confirms whether he or she has sufficient time to fulfil the responsibilities.

- Prior to nomination, the background of a candidate should be independently investigated and their qualifications verified.
- Potential candidate profiles, including existing professional commitments, should accompany the notice of the AGM for candidates standing for election/re-election at the AGM. This should go with a statement from the governing body confirming its support for the election/re-election of the candidate.
- After the election of an incoming member, the terms and conditions for serving should be formalised in a letter of appointment.
- New members must be inducted to enable them to make the maximum contribution in the shortest possible time; inexperienced members should be provided with mentorship and undergo training.
- There should be an ongoing professional development programme and regular briefings on legal and corporate governance developments, and risks and changes in the external environment in which the organisation operates.

Independence and conflicts

- Subject to legal provisions, each member of the governing body should submit a declaration of all financial, economic and other interests held by the member and related parties at least once a year.
- At the beginning of each meeting of the body or its committees, all members should be required to declare any conflict of interest in respect of a matter on the agenda. These conflicts should be proactively managed.
- Non-executive members of the governing body may be categorised as independent by the body if it concludes that if, as judged by a reasonable and informed third party, there are no factors likely to cause undue influence or bias in decision-making in the best interests of the organisation.
- The governing body should assess the independence of a member on a holistic and a "substance-over-form" basis with reference to the following: the member being a significant provider of financial capital or funding to the organisation; or an employee, officer or a representative of the afore-mentioned; participates in a share-based incentive scheme of the company; is the owner of securities, the value of which is material to the personal wealth of the member; has been employed as an executive manager during the preceding three financial years (or is related party to such an executive manager); was the external auditor or a key member of the audit team in the preceding three years; is an advisor to the organisation; is a governing body or executive management member of a significant customer or supplier; is a governing body or executive management member of a related party organisation; or is entitled to remuneration contingent on the organisation's performance.
- A non-executive member may continue to serve, in an independent capacity, for longer than nine years, if assessed annually by the governing body, and it concludes that the member continues to exercise objective judgement and there is no conflict of interest that if, as judged by a reasonable and informed third party, or likely to be any, undue influence or bias in decision-making.
- The following should be disclosed with respect to the governing body: composition reflects the appropriate mix of knowledge, skills, experience, diversity and independence; gender and race targets and progress made against these; categorisation of each director as executive or non-executive; categorisation of each non-executive member as independent or not, and for members serving longer than nine year, a summary of the governing body's views on the independence of the member; the qualifications, experience, period of service, age, other governing body and professional positions held; and reasons why any members have been removed, resigned or retired.

Chair of the governing body

- The governing body should elect an independent non-executive member as its chair to lead it in the objective and effective discharge of its roles and responsibilities.
- It should also appoint a non-executive director as the lead independent

member.

- The chair's role, responsibilities, term of office, as well as those of the lead independent, should be documented in the charter.
- The CEO of the organisation should not chair the governing body, and a retired CEO should also not do so until at least three years have passed after tenure has ended.
- The governing body and the chair should determine the number of other outside professional appointments that the chair can hold, considering the size and complexity of the other organisations involved.
- Generally, the following should apply: the chair should not be a member of the Audit Committee; he/she may be a member of the remuneration committee but not the chair; he/she should be a member of the nominations committee, and can also be the chair of that committee; the same is true for the risk governance (risk) committee; and the chair may be a member of the Social and Ethics Committee but again, not its chair.
- The governing body should ensure succession planning is in place for the chair.
- It should disclose whether the chair is considered independent, and if a non-executive has been appointed as the lead independent, the role and responsibilities assigned to that position.

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"

Recommended practices:

General

- The governing body should determine if and when to delegate certain roles and responsibilities to individual members or groups of members, or to standing or *ad hoc* committees. This process must be subject to the judgement of the governing body and to legal requirements.
- If no delegation is made, the governing body should assume all the responsibilities itself.
- The delegation should be recorded in writing and approved by the governing body. The record should set out the nature and extent of the responsibilities delegated, decision-making authority, the duration of the delegation and the delegates' reporting responsibilities. The formal terms of reference should be reviewed annually.
- The terms of reference should deal with the following: the composition of the committee, and the process and criteria for the appointment of any committee members not a member of the governing body; the roles and responsibilities of the committee; delegate authority with respect to decision-making and tenure; when and how reporting to the governing body should take place; the committee's access to resources and information; meeting procedures; and arrangements for performance evaluation.
- The governing body should consider the allocation of roles and responsibilities, and the composition of the committees, so as to achieve effective collaboration through cross-membership between committees, co-ordination in respect of timing of meetings, and avoid duplication or fragmentation of functions. There should also be no undue reliance or dominance by any individual member.
- It should ensure that each committee has a minimum of three members and sufficient capability and capacity to function effectively, allow any member to attend any committee meeting as an observer, and allow management to attend by standing or *ad hoc* invitation.
- The governing body should apply its mind to the information and results provided to it by its committees as delegation to a committee does not discharge the governing body of its accountability.
- There should be disclosure for every committee of its role and responsibilities, composition (with members' qualifications and experience), advisors and attendees, areas of focus, number of and attendance at meetings, and whether it is satisfied that it has fulfilled its responsibilities.

Audit Committee

- An Audit Committee is a statutory requirement for some organisations. As a matter of leading practice, the governing body should establish an Audit Committee for an organisation that issues audited AFS. Here its role is to provide independent oversight of the assurance functions and on the integrity of the AFS and other external reports.
- It may delegate (in addition to any statutory duties where applicable) other governance responsibilities such as approval of the AFS and risk governance (whilst ensuring sufficient time for the latter) but remains accountable.
- The governing body should ensure that the Audit Committee oversees risks that may affect the integrity of external reports.
- It should also ensure that the Audit Committee has the necessary financial literacy, skills and experience.
- All members of the Audit Committee must be independent, non-executive members of the governing body, and an independent non-executive member should be appointed to chair the Audit Committee.
- The Audit Committee should meet annually with external and internal auditors respectively, without management being present, to facilitate an exchange of views and concerns that may not be appropriate for discussion in an open forum.
- In addition to statutory disclosure requirements, the following should also be disclosed – including all the above general matters relating to committees: a statement on whether the Audit Committee is satisfied with the independence of the external auditor, and the nature and extent of such services rendered during the financial year; the tenure of the external audit firm, and in the event of the firm having been involved in a merger or acquisition, the tenure of the predecessor firm; the rotation of the designated audit partner; significant changes in the management of the organisation during tenure which may mitigate the attendant risk of familiarity between the external auditor and management; significant AFS matters and how these were addressed; views on the quality of the external audit with reference to audit quality indicators; the effectiveness of the chief audit executive (CAE) and the arrangements for internal audit; the Audit Committee's views on the effectiveness of the design and implementation of internal financial controls and the nature/extent of any significant weaknesses; the effectiveness of the CFO and finance function; and the arrangements in place for combined assurance and the effectiveness thereof.

Committee responsible for nominations of members of the governing body

- The governing body should consider allocating oversight of the nomination, election and appointment process of members, succession planning and performance evaluations to a dedicated committee or another appropriate committee.
- All members of the committee for nominations should be non-executive members of the governing body, with the majority being independent.
- Recommended disclosures are outlined in paragraph 50 of the Code.

Committee responsible for risk governance

- The governing body should consider allocating oversight of risk governance to a dedicated committee or adding it to the responsibilities of another appropriate committee.
- If the audit and risk committees are separate, it should consider one of the members to have joint membership of both committees for more effective functioning.
- The risk committee should have executive and non-executive members, with a majority being non-executive members of the governing body.
- Recommended disclosures are outlined in paragraph 50 of the Code.

Committee responsible for remuneration

- The governing body should consider allocating oversight of remuneration governance to a dedicated committee or another

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appropriate committee.
- All members of the remuneration committee should be non-executive members of the governing body, with a majority being independent non-executive members of the governing body. This committee should be chaired by an independent, non-executive member.
- Recommended disclosures are outlined in paragraph 50 of the Code.

Social and Ethics Committee

- For some companies, the establishment of a Social and Ethics Committee is a statutory requirement. The governing body should consider establishing such a committee even in organisations not required to have one by law, to have oversight of and report on organisational ethics, corporate citizenship, sustainable development and stakeholder relationships or add this to another appropriate committee.
- The responsibilities of the Social and Ethics Committee should include any statutory duties plus any other it may be delegated by the governing body, and should have executive and non-executive members, with a majority being non-executive members of the governing body.
- Recommended disclosures are outlined in paragraph 50 of the Code.

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"

Recommended practices

- The governing body should assume responsibility for the evaluation of its own performance, as well as that of its committees, its chair and individual members.
- It should appoint a lead independent director if there is not one to lead the evaluation of the chair.
- A formal process should be followed for evaluating the performance of the governing body, its committees, its chair and individual members at least every two years.
- Every alternate year, the governing body should also reflect on its own performance, as well as its committees, its chair and its members.
- The following should be disclosed in relation to performance evaluation: a description of the evaluation undertaken during the reporting period; the scope; whether they were formal or informal, whether they were externally facilitated or not; an overview of the results and remedial actions taken; and whether the governing body is satisfied that it is improving its performance and effectiveness.

Principle 10

"The governing body should ensure that the appointment of, and delegation to, management contributes to role clarity and effective exercise of authority and responsibilities"

Recommended practices:

CEO appointment and role

- The governing body should appoint the CEO, who should be responsible for leading the implementation and execution of the approved strategy, policy and operational planning, and serve as the chief link between management and the governing body.
- The CEO should be accountable to, and report to, the governing body.
- The CEO should not be a member of the remuneration, audit or nomination committees, but should attend by invitation.
- The CEO and the governing body should agree on whether the CEO can take up additional professional positions, including membership of other governing bodies, outside the organisation.
- The governing body should satisfy itself that there is succession planning for the CEO positon and should formally evaluate the performance of the CEO against agreed performance measures and targets at least annually.
- The following must be disclosed in regards to the CEO: the notice period of the CEO, and contractual stipulations related to termination; other professional commitments; and whether there is succession planning in place.

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Delegation

- The governing body should set the direction and parameter for the powers reserved for itself, and those that are delegated to management via the CEO.
- It should approve a delegation of authority framework, including specific authority to appoint ex-officio executive members and management.
- It should also oversee that key management functions are led by a competent and appropriately authorised individuals and are adequately resourced.
- Satisfy itself on succession planning for executive management and key positions and disclose whether it is satisfied with the delegation of authority framework.

Professional corporate governance services to the governing body

- The governing body should ensure that it has access to professional and independent guidance on corporate governance and its legal duties, and that it has support to co-ordinate the functioning of itself and its committees.
- Unless mandatory, the governing body should consider appointing a company secretary/other appropriate professional as leading practice.
- It should approve the arrangements for the provision of professional corporate governance services (and ensure this function has authority), the appointment of a company secretary/other professional, contract, remuneration and necessary qualities.
- The governing body should have primary responsibility for removing the company secretary or other professional providing corporate governance services.
- It should ensure the company secretary/other professional has access to and reports to the governing body via the chair for statutory and governing body matters and to an appropriate executive on other matters.
- The performance and independence of the company secretary or other professional should be evaluated at least annually by the governing body.
- It should disclose the arrangements in place for accessing professional corporate governance services, and provide a statement on where it believes these arrangements are effective.

Principle 11

"The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives"

Recommended practices

- The governing body assume responsibility for risk governance within the organisation by setting the direction for how risk should be addressed and approached. Risk governance should include: opportunities and associated risks to be considered when developing strategy and the potential positive and negative effects of the same risks on the achievement of objectives.
- It should treat risk as integral to the way it makes decisions and executes its duties, and should approve risk policy that gives effect to its direction on risk.
- It should also evaluate and agree the risks the organisation is willing to take in pursuit of strategic objectives (risk appetite and risk tolerance levels).
- The governing body should delegate to management effective risk management implementation.
- It should however exercise ongoing oversight of risk management, including the following: an assessment of risks and opportunities emanating from the triple context and the capitals the organisation uses and affects; an assessment of the potential upside or opportunity presented by risks with potentially negative effects on achieving organisational objectives; dependency on resources and relationships; the design and implementation of risk responses; business continuity arrangements and the integration and embedding of risk management into the business activities and culture of the organisation.
- It should consider receiving periodic, independent assurance on the

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effectiveness of risk management.
- The governing body must disclose the nature and extent of risks and opportunities the organisation is willing to take, along with an overview of the arrangements for governing and managing risk; areas of key focus; key risks, unexpected risks, and risks taken outside tolerance levels; actions to monitor and address risk management; and future key focus areas.

Principle 12

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

Recommended practices

- The governing body should assume responsibility for the governance of technology and information by setting the direction for how this should be approached and addressed in the organisation.
- This should include approving policy that articulates and gives effect to this.
- It should delegate to management effective technology and information implementation.
- The governing body should exercise ongoing oversight of technology and information management, and oversee that it results in the following: integration of people, technologies, information and processes; integration of technology and information risks into organisation-wide risk management; arrangements providing for business resilience; monitoring to identify and respond to incidents, including cyber security and adverse social media events; management of the performance of third-party and outsourced service providers and the associated risks; the assessment of value delivered to the organisation through technology and information investments and projects; the responsible disposal of obsolete technology and information; the ethical and responsible use of information and technology; and compliance with relevant laws.
- The governing body should exercise ongoing oversight of the management of information and oversee that it results in a technology architecture that enables the achievement of strategic and operation objectives, the management of risks related to the sourcing of technology, and monitoring and responding to developments in technology (including potential opportunities and disruptions).
- It should consider receiving periodic, independent assurance on the effectiveness of technology and information, including outsourcing.
- The following must be disclosed: an overview of governance and management of technology and information; key areas of focus; significant changes in policy; significant acquisitions and remedial actions taken because of major incidents; the effectiveness of technology and information management and how the outcomes were addressed.

Principle 13

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

Recommended practices

- The governing body should assume responsibly for the governance of compliance to laws, non-binding rules, codes and standards by setting the direction for how this should be approached and managed in the organisation. This includes approving policy that directs compliance.
- It should delegate to management the responsibility for implementing and executing compliance management.
- It should oversee compliance management so that it results in compliance being understood; that there is a holistic view of how applicable laws, non-binding rules, codes and standards relate to one another; and that this is continually monitored to ensure appropriate responses to changes and developments of the regulatory environment.
- The governing body should consider the need to get period independent assurance on the effectiveness of compliance management.
- The following should be disclosed: an overview of compliance management; areas of current and future focus; actions to monitor the effectiveness of compliance management and how outcomes were addressed; material or repeated regulatory penalties, sanctions, and fines for contraventions of, or non-compliance with, statutory obligations, whether imposed on the organisation, members of the governing body, or its officers; and details of monitoring or compliance inspections by environment regulators; findings of non-compliance with environment laws, or criminal sanctions and prosecutions, should also be disclosed.

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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 short, medium and long term"

Recommended practices

Remuneration policy

- The governing body should assume responsibility for the governance of remuneration by setting the direction and approach for remuneration in the organisation, and approve policy that gives effect to its direction on fair, responsible and transparent remuneration.
- The remuneration policy should attract, motivate and retain human capital; promote positive outcomes; and an ethical culture and responsible corporate citizenship.
- The policy should also address organisation-wide remuneration and that of executive management such that it is fair and responsible in the context of overall employee remuneration; and use performance measures that support positive outcomes across the triple context and the capitals used or affected by the organisation.
- If the organisation is a company, the voting by shareholders on the remuneration policy and implementation report, and for the implementation of related responsive measures as outlined under the Voting on Remuneration section.
- All elements of remuneration that are offered in the organisation and the mix of these must be set out in the remuneration policy, including: base salary (both financial and non-financial benefits); variable remuneration (both sort and long-term incentives and deferrals); sign-on, retention and restraint payments; the provision for pre-vesting and post-vesting forfeiture of remuneration; and the fees of non-executive members of the governing body.
- The governing body should oversee implementation of the policy to ensure achievement of the policy objectives.

Remuneration report

- The governing body should ensure disclose remuneration in the remuneration report in three parts: a background statement, main policy provisions and an implementation report of all remuneration to members and executive management during the reporting period. (Please see the Code for full detail on the recommendations for these three parts.)

Voting on remuneration

- In terms of the Companies Act, fees for non-executive directors for their services must be submitted for approval by special resolution by shareholders within the two years preceding payment.
- The remuneration policy and implementation report must be tabled annually at the AGM for separate non-binding advisory votes by shareholders.
- The remuneration policy should record the measures the governing body commits to take if either the remuneration report or the implementation report, or both, are voted against by 25% or more of the voting rights exercised. Such measures should provide for taking steps in good faith and with the best reasonable effort towards, at a minimum, an engagement process to find out the reasons for the dissenting votes, and appropriately addressing legitimate and reasonable objections and concerns raised.
- Disclose in the background statement whom the company engaged with, and the manner and form of engagement; and the nature of the actions taken to address concerns in the event of a 25% or more dissenting vote.

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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"

Recommended practices

Combined assurance

- The governing body should assume responsibility for assurance by setting the direction and arrangements for assurance services and functions and delegate to the Audit Committee oversight to ensure an effective internal control environment, integrity of information for management decision-making and external reporting.
- It should satisfy itself that a combined assurance model is applied that covers the significant risks and material matters through a combination of the organisation's line functions, risk and compliance functions, internal auditors, fraud examiners, safety assessors, actuaries, external auditors, other assurance providers and regulatory inspectors.
- The governing body and it committees should assess output of the combined assurance and form their own opinion on the integrity of information and reports and the degree to which an effective control environment has been achieved.

Assurance of external reports

- The governing body should assume responsibility for the integrity of external reports issued by the organisation by setting the direction for how assurance of these should be done, taking into account legal requirements, as well as whether assurance is applied to the underlying data used to prepare a report or the process of preparing and presenting a report, or both; the suitability of the nature, scope and extent of assurance to the intended audience and purpose of a report; and specifications for evaluating the contents of the report.
- It should satisfy itself as to the effectiveness of the combined assurance model as a basis for making its statements on the integrity of external reports.
- In addition to the independent, external audit opinions provided in terms of legal requirements, external reports should disclose the type of assurance process applied to each report, including the nature, scope and extent of assurance on the report, and a statement on the integrity of the report and basis for the statement.

Refer to Part 5.3 of King IV™ for recommended disclosure by the Audit Committee concerning the organisation's application of combined assurance.

Internal audit

- The governing body should assume responsibility for internal audit by setting the direction for internal audit arrangements needed to provide objective and relevant assurance that contributes to the effectiveness of governance, risk management and control processes, and delegate oversight to the Audit Committee.
- It should approve an internal audit charter, defining the roles, responsibilities, and authority of internal audit, including internal audit's role within combined assurance and the internal audit standards to be adopted.
- It should ensure that the arrangements provide for the necessary skills and resources to address the complexity and volume of risk faced by the organisation, including access to specialists if required.

- If a CAE has been provided for, the governing body should ensure that the role functions independently of management. It should also approve the appointment, contract and remuneration of the CAE and ensuring that the person appointed to the position has the necessary competence, gravitas and objectivity.
- For reasons of independence, the CAE should have access to the Audit Committee chair, and should not be a member of the executive management. However, the CAE should be invited to attend executive meetings where necessity to be informed of strategy and policy decisions.
- If internal audit is co-sourced or outsourced, the governing party must ensure there is clarity on who the CAE is.
- The CAE should report to the chair of the Audit Committee on internal audit duties and functions and to a designated executive on other matters.
- The governing body should have primary responsibility for the removal of the CAE.
- It should also regularly monitor that internal audit follows an approved risk-based plan, review the organisation's risk profile regularly and propose adaptions to the plan accordingly.
- The governing body should ensure that internal audit makes an annual statement on the effectiveness of the governance, risk management and controls; that the internal audit function is externally and independently reviewed every five years; and obtain annual confirmation from the CAE that the internal audit function conforms to a suitable code of ethics.

Principle 16

"In the execution of its governance roles 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"

Recommended practices

Stakeholders relationships

- The governing body should assume responsibility for the governance of stakeholder relationships by setting the direction for how these should be approached and conducted, and should approve a policy to give effect to this.
- It should delegate to management the responsibility for the implementation and execution of effective stakeholder relationship management.
- It should exercise ongoing oversight of stakeholder relationship management, and ensure that it results in the following: methodologies for identifying individual and groups of stakeholder, and material stakeholders; management of stakeholder risks; formal mechanisms for engagement and communication; and measurement of the quality of stakeholder engagement and appropriate responses to the outcomes.
- The following should be disclosed: an overview of stakeholder management; current and future focus areas; and the actions taken to monitor the effectiveness of stakeholder management and how outcomes were addressed.

Shareholder relationships (applicable to companies only)

- The governing body (board) should oversee that the company encourages proactive engagement with its shareholders, including at the AGM. All directors should be available at the AGM to respond to shareholder queries on how the board executed its governance duties. The board should also ensure that the external audit partner is at the AGM.
- The board should further ensure that shareholders are equitably treated, and that the interests of minority shareholders are protected.
- The minutes of the AGM of listed companies should be made available publicly.

Relationships within a group of companies (applicable to companies within a group)

- In the case of the holding company, the board of the holding company should assume responsibility for governance across the group by setting the direction for how the relationships and exercise of power within the group should be done, and approve a group governance framework that articulates and gives effect to this.

- The adoption and implementation of the policies, structures and procedures of the holding company is a matter for consideration and approval by the board of the subsidiary as a separate legal entity. The board of the holding company should therefore ensure that the boards of subsidiaries are include in developing the framework.
- The board should ensure that this framework does not contain any conflicts and that it recognises each subsidiary as a separate and independent juristic person to whom its directors owe fiduciary duties.
- It should also ensure that the group governance framework addresses the delineation of the rights and roles of the holding company; where applicable, delegation of certain matters by the board of a subsidiary to a board committee of the holding company, without abdicating responsibility; the extent of the adoption of holding company policies by the subsidiary; engagement with the subsidiary company before appointing directors; and the arrangements to address the risk of breaching legal duty in relation to the use of information while acting as a director of one company in the group for the purposes of another company in the group.
- Ensure that the agreed governance framework is implemented across the group.
- The holding company should disclose an overview of the group governance framework.
- The subsidiary company should disclose the responsibilities delegated to the board committees of the holding company and the extent to which it has adopted the holding company's policies.

Principle 17

"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"

Recommended practices

- The governing body of an institutional investor should direct how responsible investing will take place, and approve policy for responsible investing.
- It should delegate to management or an outsourced manager the implementation of the responsible investing policy.
- Where an institutional investor outsources investment decisions or activities to custodians, nominees, consultants, etc. the governing body should oversee that the outsourcing is regulated by formal mandate which reflects and gives effect to its responsible investment policy.
- The governing body should ensure that service providers are accountable for complying with the formal mandate.
- The responsible investment code adopted by the institutional investor should be disclosed, along with the application of its principles and practices.

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