



King IV Commenting Platform

Filled Sunday, May 15, 2016

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Welcome to the official King IV Commenting Platform. After you have downloaded and reviewed the draft King IV Report here [if this link does not open, please copy and paste the following into your browser: https://c.ymcdn.com/sites/iodsa.site-ym.com/resource/resmgr/King_IV/King_IV_Report_draft.pdf], you will be able to enter your comments using this platform. The public comment process takes place in 2 phases, the first of which invites comment on the whole of the King IV Report, bar the Sector Supplements. The Sector Supplements are to be subjected to public comment during phase 2. This platform will remain open in respect of phase 1 for two months from 15 March 2016 to 15 May 2016. Phase two of the commentary process, being commentary on the sector supplements, will be opened on notice. Commenting terms and conditions Please note that this process is open and transparent. All comments submitted will be available for public view at <http://www.iodsa.co.za/page/KingIVCommentLibrary> and NO anonymous comments are permitted. Comments received are added to the library for public viewing weekly together with the identity of the individual or organisation on behalf of whom the submission is made. Only comments submitted through this platform will be considered for the finalisation of the King IV Report.

Do you agree to the King IV commenting terms and conditions?

Yes



Page 2

Personal Details Section:

***Title:**

Mr

***First Name:**

Charles

***Last Name:**

Nel

***I am commenting on behalf of:**

An organisation

***Name of organisation:**

Institute of Internal Auditors South Africa

***Capacity within organisation:**

Department Head: Technical



PART 1: Introduction and Foundational Concepts

PART 1: Introduction and Foundational Concepts

Add your comments for this part here:

Variable	Response
PART 1: Introduction and Foundational Concepts 1. Introduction	<p>1 IA's responsibility re governance evaluation underplayed – IA role with regards to integrated reporting, combined assurance and governance assurance needs to be more explicit. Consider point 5 – Adequacy of control frameworks not specifically highlighted and should be expanded upon.2 The Board's prerogative to prioritize the different interests of stakeholders should be explicitly stated in the document.3 The IIA SA supports the distinction between principles and the related/suggested practices.4 Standardise the document to South African English not American English.5 The word assurance would need to be defined when moving/suggesting a five lines of assurance model. In addition, there are many other terms in the document which need to be provided with definitions to ensure a consistent market understanding.6 The IIA SA supports the 3 lines of defence model as set out in COSO.7 The 5 lines of assurance model could lead to some confusion in the market. We do not necessarily agree that the board or its committees can be viewed as a line of defence as they are the governance bodies in the organisation accountable for the decision making and thrust of direction of the organisation.8 The conceptual thinking behind decisions should guide the apply and explain content of organisational reporting. We are unsure whether the King IV document achieves this successfully.9 It is uncertain whether the process of the application of mind to organisational objectives is suitably defined.</p>
PART 1: Introduction and Foundational Concepts 2. Objectives of King IV	<p>1 The King IV needs to be restructured to ensure the key desired outcomes from King IV are highlighted at the beginning of the document in an executive summary.</p>
PART 1: Introduction and	<p>1 The section clarifying group governance is to be welcomed. There is a</p>



Foundational Concepts | 3.
King IV definition of
corporate governance

PART 1: Introduction and
Foundational Concepts | 4.
The underpinning
philosophies of King IV

potential for a practice guide in this space.² Now that there is a desire to have the Report adopted in all sectors, there is concern whether the word 'corporate' in Corporate Governance (as in corporate reporting) is commonly understood/accepted. e.g. an NGO would possibly not see itself as corporate. Perhaps the glossary needs to include an explanation that the term corporate for the purposes of the Report is all inclusive? Consider replacing "corporate governance" with "organisational governance."³ Should the definition of ethical and effective leadership should be expanded to include include accountability for the impact of the organisation's activities? Ref pages 6-7

1 (4.1 p3) - The Ethics of governance should be defined as is done for the "Governance of Ethics" to ensure not confusion between the two sets of wording² (4.1 pg 3) - Responsibility – Don't know if this is meant to be a definition or a clarification of the term responsibility with regard to the governance of an organisation. The term responsibility should not be used in the definition of responsibility.³ (4.1 pg 3) – Accountability – Last sentence should read "Accountability cannot be delegated or abdicated, and should be clearly communicated." Not communicated clearly. Clearly could also be replaced by understandably.⁴ Fairness: The governing body should ensure in its decisions that it balances the legitimate not "The governing body should ensure it balances in its decisions the legitimate not..."⁵ Pg 4 – Governance of ethics – Good ethics is the foundation of good business. What is good business? Unclear meaning and could be substitute with terms such as: legitimate, honest, sustainable, integrity e.g Good ethics is the foundation of legitimate business conducted with integrity for the purpose of sustainable value creation for all stakeholders.⁶ Pg 5 Ethics referring to the sentence: "For the purposes of King IV, values are convictions and beliefs about what is important in all these aspects". It is unclear what aspects are referred to.⁷ 4.3 Corporate citizenship – Box insert a in "As a corporate citizen"⁸ 4.4 pg 7 – "The need for an integrated response has never been greater." – sentence has no relevance as integrated response is not defined.⁹ 4.4 pg 8 para 4 – Terminology not consistent in the context of the integrated reporting framework – In South Africa,... enhancing human and social and relational capitals. Social and relational capital is one concept not two different capitals.¹⁰ 4.4 pg 8 para 4 – Integrating sustainable --- the organisation and the broader society. Remove "the"¹¹ Box pg 9 remove – from "duty of the –governing"¹² Pg 10 – The last 2 sentence should be boxed as this is the crux of King IV and included in the introduction



PART 1: Introduction and Foundational Concepts | 5. Local and international developments since King III

to King IV– The best interests Sustainable value creation.13 4.6 – Box – “Having a holistic view of the value reporting on value creation and performance”. This is one of the key issues of King IV and should be included in the introduction/executive summary to King IV14 4.7 – Define the term integrated annual reports.15 Consider rewording “Corporate reporting must demonstrate.. performance” to Corporate reporting must provide a holistic account of organisational performance whilst demonstrating the application of integrated thinking within the organisation.16 The concept of integrated thinking is not clear and its relevance to corporate governance is unclear.17 4.8 pg 14 – Perhaps bullet the 3 paradigm shifts before discussing below18 Pg 14 From Financial capitalism to inclusive capitalism. “The system of donor aid...of thinking in value” change of to to.19 4.1. There is often a disconnect between what is being said by the leadership (setting the tone), what they believe the culture to be and what is really transpiring at grass roots level. Not sure that this is adequately addressed. I.e. how is it assured that the tone at the top is carried through the organisation.?20 4.1. Is there a strong enough emphasis on the role of shareholders? Recent questions in the media around who reigns the Board in when it make irrational decisions.– Who holds the board accountable (stakeholders, sharholders, regulators etc.)?21 4.1. Obligations on oversight body all well and good, but short-term focus of shareholders or political interference can derail long-term sustainability. This comment, ties in with 22 above but considers a different aspect.22 Page 4. Organisations should aim for a strong ethical culture that is self-policing and self-correcting.23 4.2 page 6. This is also true for a juristic person, which should serve its own needs (?) as well as the broader society of stakeholders. Insert needs.

1 5.7 Technology and Information (page 19) {These require further investment, as they are important strategic assets for capturing opportunities and gaining competitive advantage} It is suggested that the following sentence be added.“It is important for governing bodies\boards to understand the potential impact of not investing in technology and information”2 5.4. Although one attempt is made to refer to the external audit firm, the term auditor is used in at least three different contexts. It is recommended that the terms external audit, internal audit and other assurance providers be used consistently to avoid confusion. We still find that many think internal and external audit are the same disciplines.3 5.10 The term ‘business’ to be replaced by ‘organisation’



PART 2: Content Elements and Development

PART 2: Content Elements and Development

Add your comments for this part here:

Variable	Response
PART 2: Content Elements and Development 1. Overview of the nine parts of the King IV Report	<p>1 Composition of the governing body - appointment procedures. • No provision is considered for shareholder directors appointments - all focused on the internal board processes on appointment. These are big issues for group and state owned entities board appointments (reference could be made to CGN papers on Due Diligence on Director’s Appointment and The Representative Director.) • Independence (27e) - the provision presumably does NOT apply to a partner of the auditors. • A further point should be added where a company linked to an independent director enters into a normal business transaction with the company e.g. taking a loan with a bank, is this an independence issue? 2 Consideration should be given to the power that the chairman yields as this may influence whether that individual is independent or not. Questions such as “Can the chairman make decisions on their own to the exclusion of others on the board” Issues such as this should be considered when determining independence.</p>
PART 2: Content Elements and Development 2. King IV Code elements	No Comment
PART 2: Content Elements and Development 3. Sector Supplements	No Comment
PART 2: Content Elements and Development 4. Content development process	NO Comment
PART 2: Content Elements and Development 5. Drafting convention	No Comment
PART 2: Content Elements and Development 6. Presentation features of	No Comment



King IV

PART 3: Application of King IV

PART 3: Application of King IV

Add your comments for this part here:

Variable	Response
PART 3: Application of King IV 1. Legal status of King IV	1 Committees of the governing body. • Consideration should be given to ensure that integrated thinking is developed between the committees of the board and that they do not perform in silos.
PART 3: Application of King IV 2. Scope of application of King IV	No comment
PART 3: Application of King IV 3. Proportionality – appropriate application and adaption of practices	1 This is a key concept to the understanding of King IV and this should be manifest earlier in the document and a baseline underlying principle. We don't believe it is explained clearly enough and an example to aid understanding may be useful.
PART 3: Application of King IV 4. Disclosure on application of King IV	No comment
PART 3: Application of King IV 5. Transition from King III to King IV	1 To ensure clarity a statement that King IV replaces King III in its entirety should be included. Should this not be the case then further information about the use of the various versions on the King code should be provided.

PART 4: King IV on a page

PART 4: King IV on a page

Add your comments for this part here:

1 Good representation. Needs to be part of a 3-5 pages executive summary describing the objectives that King IV wants businesses to achieve through utilisation of the guidance from the King IV report.



PART 5, CHAPTER 1: Leadership, Ethics and Corporate Citizenship

PART 5CHAPTER 1: Leadership, Ethics and Corporate Citizenship

Add your comments for this part here:

Variable	Response
PART 5CHAPTER 1: Leadership, Ethics and Corporate Citizenship 1.1 Ethical leadership	1 Page 35 please “add their privacy” under 13 (i) fair treatment of customers and their privacy.
PART 5CHAPTER 1: Leadership, Ethics and Corporate Citizenship 1.2 Organisation values, ethics and culture	No comment
PART 5CHAPTER 1: Leadership, Ethics and Corporate Citizenship 1.3 Responsible corporate citizenship	1 The IIA SA does not have an answer, but believe that ‘respond appropriately’ is so broad and open to interpretation. Same goes for “responsible remuneration”. These concepts should be included in terms defined or additional guidance as to what is meant by the. E.g. Is a R30 mil bonus for the executives over and above their R20 mil salary really ethical and sustainable?

PART 5, CHAPTER 2: Performance and Reporting

PART 5CHAPTER 2: Performance and Reporting

Add your comments for this part here:

Variable	Response
PART 5CHAPTER 2: Performance and Reporting 2.1 Strategy, implementation, performance	1 Page 36 - 2.1 number 3 – add “results of foresight (future studies), consideration for complexity and potential disruptions in its market” 2 2.1(3)(b) ‘including’ implies that there could be more?3 Strategy formulation should consider multiple futures given the current fluidity of the business and political world.
PART 5CHAPTER 2: Performance and Reporting	No comment



2.2 Reports and disclosure

PART 5, CHAPTER 3: Governing Structures and Delegation

PART 5 CHAPTER 3: Governing Structures and Delegation

Add your comments for this part here:

Variable	Response
PART 5 CHAPTER 3: Governing Structures and Delegation 3.1 Role of the governing body	1 P42, practice 27(h) – the definition should also include a major donor or sponsor or funder or financier 2 P43, practice 35(a) – this prohibition on the Chairman being a member of the Audit Committee in large organisations makes sense. In smaller boards however, this could be problematic. The prohibition on the Chairman of the Board chairing the Audit Committee is sufficient. The King IV report should clarify why i.e. provide guidance over the reasoning to be considered when making such decisions.
PART 5 CHAPTER 3: Governing Structures and Delegation 3.2 Composition of the governing body	1 Page 42 (35)(a) Under which circumstances would it be ok for the chairman of the Board to be also chairman of the Audit Committee? Refer to 3.7(2)nt
PART 5 CHAPTER 3: Governing Structures and Delegation 3.3 Committees of the governing body	1 Page 44 (43) I understood that the Companies Act does not call for a Social and Ethics Committee to only comprise of directors. Thus members of the executive and senior management could be more than mere invitees. 2 Page 45 (51) This is not true in the public sector. Will it hold up? The audit committee is only advisory in the public sector.3 Page 45 (53) The term ‘opportunity’ has fallen away here. Consistency with the terminology needs to be addressed in the document.4 The term integrated assurance which appeared in previous drafts has been dropped. Is there a specific reason for this?Page 47 (67). Perhaps reasoning behind this prohibition should be provided for the sake of clarity? (Same would go for the Audit Committee)
PART 5 CHAPTER 3: Governing Structures and Delegation 3.4 Delegation to management	1 Page 48 (76) Reference to leadership continuity makes more sense and is a broader concept. Succession planning implies that individuals have been identified. This may not be the case however the characteristics of such an individual would need to be defined in order to source a suitable candidate for the leadership of the organisation.2 Page 50 (92) what about smaller entities where the individual may be



PART 5 CHAPTER 3:
Governing Structures and
Delegation | 3.5
Performance evaluations

responsible for other duties as well, where functional reporting would have to be to the CEO? The duality of roles may need to be clarified in additional guidance.

No comment

PART 5, CHAPTER 4: Governance Functional Areas

PART 5 CHAPTER 4: Governance Functional Areas

Add your comments for this part here:

Variable	Response
PART 5 CHAPTER 4: Governance Functional Areas 4.1 Risk and opportunity governance	1 There is no requirement to disclose what the risks are and how addressed. There should be clarity around the organisation thinking on risk by leadership for consideration by stakeholders.
PART 5 CHAPTER 4: Governance Functional Areas 4.2 Technology and information governance	1 The governing body cannot perform a review. Surely it would consider the results of reviews carried out under its instruction and then make relevant decisions.
PART 5 CHAPTER 4: Governance Functional Areas 4.3 Compliance governance	1 The governing body cannot perform a review. Surely it would consider the results of reviews carried out under its instruction and then make relevant decisions. 2 Page 54 – 17 c. add “and other relevant stakeholders” for the sentence to read “a cyber-security plan that includes technical tools necessary for defence, and supporting interventions such as creating a culture where employees and other relevant stakeholders (such as suppliers and customers) are alert to cyber-security risk and proactive in raising concerns.”
PART 5 CHAPTER 4: Governance Functional Areas 4.4 Remuneration governance	1 The requirements for remuneration reporting are quite specific plus have good elements as required in background, policy and implementation. Consideration should be given to similar requirements in King IV for risk, IT and compliance. 2 The IIA SA supports the emphasis put on executive remuneration and how the shareholders’ voice can be heard.
PART 5 CHAPTER 4:	1 Not enough guidance as to the assurance over the integrated report. 2



Governance Functional Areas | 4.5 Assurance

Reference is made in King IV to an integrated assurance model. Clarification is required.³ Page 57-58, number 45, add c. efficiency in assurance provision⁴ Page 59 (55) Not sure how internal audit can keep its finger on the pulse if it does not have a seat at the table. Should be a permanent invitee with no voting rights. Para 56 says the CAE and other level 3 assurance providers may not be members of the executive and may attend executive meetings. King IV implies that it's suitable for the CAE not to attend EXCO meetings. The CAE should be an invitee, at least, so that the CAE has the full picture over strategy and risk and can adapt the combined assurance and audit plans suitably. This is addition to providing control and risk information related to executive decision making, before decisions are taken.⁵ Page 59 (55) What is meant by 'other specialists' and why are they under the internal audit heading? Assurance topics/concepts should be expanded and explained.⁶ Page 59 (61) Not clear enough on who takes responsibility for providing assurance over all organisational activities.⁷ No mention is made with regard to the International Standards for the Practice of Internal Auditing which is the global standard by which all Internal Auditors should conduct their activities.

PART 5, CHAPTER 5: Stakeholder Relationships

PART 5 CHAPTER 5: Stakeholder Relationships

Add your comments for this part here:

Variable	Response
PART 5 CHAPTER 5: Stakeholder Relationships 5.1 Stakeholders	No comment
PART 5 CHAPTER 5: Stakeholder Relationships 5.2 Responsibilities of shareholders	No comment

PART 6: Sector Supplements

PART 6: Sector Supplements

Content on Part 6: Sector Supplements will be published and opened for commentary during May 2016.



PART 7: Application Register

PART 7: Application Register

Commentary on Part 7: Application register will be addressed in the Comment Questions section, Question 10.

PART 8: Glossary of Terms

PART 8: Glossary of Terms

Add your comments for this part here:

1 Comments entered in discussions above. This area of the document needs expansion to include terminology which is not clear in meaning.

Comment Questions (1-5)

Comment Questions Question 1 - Question 5

Question 1

The set objectives of the King IV Report are to: -promote good corporate governance as integral to running an enterprise and delivering benefits to it;broaden the acceptance of good corporate governance by making it accessible and fit for application by organisations of a variety of sizes, resources and complexity of strategic objectives and operations;reinforce good corporate governance as a holistic and inter-related set of arrangements to be understood and implemented in an integrated manner; andpresent good corporate governance as concerned with not only structure, policy and process but also an ethical consciousness and behaviour.To what extent would the draft King IV Report as it stands achieve each of these objectives?Please comment on how this could be optimised.

1 The IIA SA believes that attention needs to be given to the soft skills concepts which underlie the achievement of the objectives of King IV.

We believe that the code should consider 2 different sets of objectives.

- The objectives of King IV



- The governance objectives that the organisation should strive for when applying King IV. The potential value the application of King IV brings to the organisation.

Question 2

Part 2 of the draft King IV Report: Content Elements and Development, deals with outcomes, principles and practices. Clear differentiation of these content elements is key to reinforcing qualitative governance which is outcomes driven rather than about mindless compliance. Is the rationale and the difference between these content elements clearly explained? Please provide suggestions on how this could be further enhanced.

1 The governance objectives that the organisation should strive for when applying King IV needs to be expanded. The potential value the application of King IV brings to any organisation should be discussed.

(No response)

Question 3

King IV uses the broader form of address namely: 'organisations'; 'governing body'; and 'those charged with governance duties'. Does this make the King IV Report more broadly relevant to all organisations and sectors?

1 Not necessarily. The governance structure is not the same in all sectors and the general King IV would need to identify and map to the sectors where practices apply.

Question 4

The King IV Code recommends that as a minimum, the chief executive officer (CEO) and one other executive should be appointed to the governing body. Other than in King III, it does not specifically recommend the inclusion of the chief financial officer (CFO) as a member of the governing body. This allows flexibility for another executive to be appointed as a member of the board, depending on the nature and needs of the business. Would a recommendation specifically providing for inclusion of the CFO be more appropriate or is flexibility preferable in light thereof that organisations differ?

No comment



Question 5

Do the independence criteria in Chapter 3 of the Code provide clear and useful guidance for assessment of independence on a substance over form basis?

No comment

Comment Questions (6-10)

Comment Questions Question 6 - Question 10

Question 6

Will the new disclosure and voting requirements on remuneration in Chapter 4 of the Code lead to increased transparency and more meaningful engagement on remuneration between organisations and their stakeholders? Please provide suggestions for further enhancement.

No comment

Question 7

King IV introduces in Chapter 4 of the Code, the 5 lines on assurance in the place of the traditional 3 lines of defence. It also expands on the implementation of the combined assurance model. Will this assist with more effective co-ordination and alignment of assurance? Please provide suggestions for further enhancement.

Comments in the submission should be considered a response to this question.

Question 8

The governing body as the focal point of corporate governance and is therefore the primary audience of the King IV Report. King IV requires the governing body of an institutional investor to ensure that the organisation exercises its rights as holders of beneficial interest in companies, responsibly. Does this principle establish the necessary linkage between King IV and the Code for Responsible Investing in South Africa (CRISA) so that governance is reinforced by all role players? How can King IV further reinforce responsible investing practices? (For access to CRISA go to www.iodsa.co.za.)



1 Although this is not applicable to all organisations this is quite a significant issue and goes to the issue of shareholder activism. Institutional investors should be asked to report on how they have assessed their underlying investments' adherence to the King IV principles.

Question 9

King IV introduces 'risk and opportunity' governance to emphasise risk as being about uncertainty and the effect of it occurring or not occurring having a possible negative or positive effect on the organisation achieving its objectives. Is it useful to refer to risk and opportunity governance and will it reinforce it as a value-add rather than conformance exercise?

Although opportunity is inclusive in current risk management principles and practices, the highlighting of opportunity could support the concept of value add.

Question 10

The application regime of King IV is 'apply and explain' as opposed to 'apply or explain' in King III. The main difference between the application regime of King III and King IV is that application of the principles is assumed in King IV as they are basic to good corporate governance. Furthermore, the 75 principles in King III have been replaced with 17 principles in King IV. For the 'apply and explain' regime, explanation is required in the form of a high level narrative of the practices that have been implemented and the progress made in the journey towards giving effect to each principle. Will 'apply and explain' encourage greater transparency and qualitative? Should disclosure on King IV application be required to be signed off by the governing body? (For further information on the application regime refer to Part 3: Application of King IV and to Part 7 for a template of the application register.)

1 The disclosure of King IV application by the organisation should be signed off by the governing body.

2 The checklist approach set out in the appendix should not be encouraged. Rather substantive comment on how the Board has ensured application or part thereof. We have to guard against the checklist approach.

(No response)



Survey Questions

Survey Questions

How much do you agree or disagree with the following statements, please give a reason for your answer.

You may need to scroll to the right to see all the options, depending on the size of the screen you are using.

Why do you say that?

The King IV document is easy to understand	Neither agree nor disagree	(No response)
The document meets the King IV objectives	Neither agree nor disagree	(No response)
King IV is an improvement on King III	Neither agree nor disagree	(No response)

END

Have you added all the comments you would like to add? If not please click on the section you would like to add comments to. Once you have done this you may return to this page and submit your comments.