KING IV
BOLDER THAN EVER
While we acknowledge that most organisations suffer from regulation fatigue, we welcome this new version of the King Code as it not only provides a more practical, principle-based approach to good corporate governance, but also incorporates both global public sentiment and international regulatory change since King III was issued in 2009.

In our view, King IV is bolder than ever before. Firstly, the Code is principle-based and follows an outcome-based rather than rule-based approach. This is in line with current international sentiment which promotes greater accountability and transparency. It speaks to the expressed view that the application of the Code should contribute to the performance and health (sustainability) of the company. In this regard it is clear that King IV aims to establish a balance between conformance and performance. The Code is further bold in its relentless effort to reinforce corporate governance as a holistic set of arrangements that concerns itself with ethical leadership, attitude, mind-set and behaviour. This echoes global developments in the conduct risk arena and also seeks to address and prevent recent examples of corporate failure.

Lastly, the boldness of the Code is evident in the clear focus on transparency and targeted disclosures in all areas, specifically in the introduction of far more extensive executive remuneration disclosure than ever seen before. While we believe that this matter still warrants debate in the South African context, we acknowledge that the suggestions are in line with global developments and perhaps more relevant in a country where the income differential remains higher than desired.

In this document we specifically highlight our assessment of what is different and what is new, both in the underpinning philosophy and principles of King IV.
EXECUTIVE SUMMARY
From an application point of view, the King IV Report has been structured as a framework that can be applied more easily across listed and unlisted companies, profit and non-profits as well as private and public entities. As such the Code refers to “organisations” and “governing bodies”. For purposes of this publication we refer to “companies” and “Board”.

The approach of “apply or explain” of King III is replaced with “apply and explain” – application of all the principles is assumed and companies should explain the practices that have been implemented to give effect to each principle.

So, what’s new in King IV?

- King IV applies a principle-and-outcome based approach, and moves away from a tick-box approach. The 75 King III principles have been consolidated into 16 principles, each linked to very distinct outcomes. The focus in King IV is clearly on ensuring that the application of the principles achieves specifically identified outcomes. Each principle is supported by a limited number of recommended practices, and requires specific disclosures.

- In line with international developments, remuneration has received far greater prominence in King IV. While King III required the remuneration policy to be tabled for a non-binding advisory vote of shareholders, King IV recommends that both the remuneration policy and an implementation plan (stipulating the various aspects of remuneration together with a link to performance) be tabled for a non-binding advisory vote. However, where the policy or implementation plan is not approved by at least 75% of shareholders, the remuneration committee must consult shareholders and disclose the nature and outcomes of such consultations. Interestingly, the social & ethics committee has been tasked to oversee fair and responsible executive remuneration practices in light of overall employee remuneration.

- In light of the prevalence of the Fourth Industrial Revolution, King IV has deliberately separated technology and information. King III first officially introduced IT Governance to Corporate Governance in South Africa and demanded a greater level of IT risk awareness at director level. King IV recognises information separate from technology as a corporate asset and confirms the need for governance structures to protect and enhance this asset.

- King IV recommends the establishment of a social & ethics committee (SEC) as a prescribed Board committee as best practice for all organisations. King IV recommends that the role of this committee goes beyond the functions listed in the Companies Act, and be extended to include matters pertaining to ethical behaviour and ethics management. Also, King IV proposes greater integration between the role and function of the SEC and other Board committees.

- King IV emphasises the critical role of stakeholders in the governance process. Not only must the Board consider the legitimate and reasonable needs, interests and expectations of stakeholders as a matter that enjoys intrinsic value, but King IV now specifically recognises the role and responsibilities of stakeholders - active stakeholders are required to hold the Board and the company accountable for their actions and disclosures.
• King IV has a strong focus on opportunity management and is proposing a name change from risk committee to risk and opportunity committee. Perhaps more significant, the Code recommends the overlap of membership of the risk and audit committee's where these function as separate committees, for better functioning. If the roles are combined in a single committee, the meeting agendas to address audit, and risk and opportunity, should be separate. While this might seem administrative in nature, it does increase the prominence of the risk and opportunity oversight role of the Board.

• King IV has acknowledged the need to assess and confirm the external auditor’s independence, but does not specifically address audit firm rotation. King IV suggests that the audit committee oversees auditor independence, considering the impact of non-audit services, audit firm tenure and audit partner rotation. King IV proposes a number of specific disclosures which may be included in the audit committee report, including any significant audit matters considered and how the committee has addressed the matters.

• Where King III included a separate principle in which a governance framework should have been agreed between the group Board and its subsidiary Boards, King IV deals with group governance differently in that it allocates responsibility for the implementation of a group governance framework to the holding company Board.

• King IV has refined the concept and requirements of combined assurance by introducing the five level Combined Assurance Model. The lines of defence are separated by the level of risk ownership as well as independence of assurance.

• The concept of independence has evolved from King III where a list of disqualifications from independence was provided. King IV takes a more practical approach and focuses on the perception of independence by an informed third party, rather than factual independence or a tick-box approach. King IV emphasises the fact that independence is predominantly a state of mind which is a moral characteristic and legal duty of all directors.

• From a strategy and performance point of view King III encouraged the Board to play a prominent role in the strategy-development process, which has been controversial in that many Board members felt that management should develop the strategy, with the Board providing oversight to the process. King IV clarifies this position and specifically requires the Board to approve the formal strategy and then provide oversight over the policies and plans that are developed from the approved strategy.

• King III introduced the concept of the triple bottom line reporting, where profit, planet and people were taken into consideration when reporting on performance. Since the release of the King III, there have been significant global developments in corporate reporting, notably the release of the Integrated Reporting Framework by the International Integrated Reporting Council (IIRC) in 2013. While there is no formal requirement to apply the IIRC’s Integrated Reporting Framework, the concepts and principles introduced by the IIRC have been reaffirmed in the King IV Code and the philosophy of integrated thinking has been incorporated into the Code.

In the spirit of transparency, King IV emphasises the role of disclosure in managing stakeholder relationships. The disclosure requirements in the Code are far more onerous than previous requirements.

Executive summary

And, what's different?

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• From a strategy and performance point of view King III encouraged the Board to play a prominent role in the strategy-development process, which has been controversial in that many Board members felt that management should develop the strategy, with the Board providing oversight to the process. King IV clarifies this position and specifically requires the Board to approve the formal strategy and then provide oversight over the policies and plans that are developed from the approved strategy.
THE PHILOSOPHY BEHIND KING IV
The underlying theme of King III emphasised the Board’s responsibility for business sustainability. These principles are now well embedded and, as described above, King IV brings a renewed focus on ethical leadership and good governance. The philosophy of King IV is focused around:

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

This philosophy is centred on three paradigm shifts in corporate governance:

- From financial capitalism to inclusive capitalism
- From short termism to long term sustainability
- From silo reporting to integrated reporting

Although the role of ethical leadership was recognised in King III, King IV brings a more refined focus in terms of the obligation of the organisation (to be accountable and transparent) as well as the accountability of the company as broader stakeholder within the broader society.

The Board takes ultimate responsibility for the company as a juristic person and needs to be accountable.

- Responsibility – King IV echoes the approach in the Companies Act that emphasises the role of the company in society and its obligation to behave as a responsible citizen. The Board assumes ultimate responsibility for this obligation and has to embed this ethical character and culture in all the strategy, plans, processes and performance of the company. It is critical that the Board understands their obligation with regard to ethical character and culture, and that the Code specifically states that this obligation cannot be delegated.

- Stakeholder Accountability – the Board is accountable to all stakeholders for its company’s ethical conduct through the stakeholder inclusive model. As defined by King IV, the Board should consider the legitimate and reasonable needs, interests and expectations of the stakeholders not merely as an instrument to serve the interests of the stakeholder but as a matter of intrinsic value. The intrinsic value of the broader stakeholder (as opposed to only the shareholder) in the creation of value remains prominent in King IV.

King III introduced Integrated Reporting (IR) to the South African market, and this was followed by international developments regarding IR. King IV uses this philosophy and terminology that has been developed with the view of building legitimacy and trust in the value creation process. King IV also incorporates the concept and importance of integrated thinking. The philosophy of integrated thinking is embedded throughout the Code and the practice recommended by the Code is to present the company’s material information in an integrated manner by issuing a report annually.
One.

Approach and application of the CODE

The King IV Code has been structured as a framework that can be applied more easily across both listed and unlisted companies, profit and non-profits as well as private and public entities. The King IV Code moves away from listing the prescribed requirements or recommended practices and focuses on the fundamental principles that need to be considered by each organisation. The approach seems to advocate for a move away from a tick-box approach to focusing on understanding the potential benefits and effective application of the principles instead.

The King IV Code highlights the desired governance outcome per chapter and then proceeds to contextualise each principle in terms of the recommended practices. The principles and intended outcomes are phrased in the Code so that they may be applied to all organisations. The intention is for the recommended practices to be adapted based on the size, resources and complexity of strategic objectives and operations of the organisation in question. Furthermore, the application approach (how to) will be published in the form of practice notes and guidance notes. This should assist and enable organisations of different sizes and natures (private sector, public sector, SME, non-profit, etc.) to apply the principles in their particular context.

King IV recommends that the organisation maintains an application register indicating a narrative account of the application of the required principles and the extent to which the intended outcome has been achieved. This register is to be updated annually at least, approved by the Board and published on accessible media and communication platforms. This is a fundamental shift from the current compliance driven disclosure requirement to outcome-based reporting for which the Board takes ultimate responsibility.

It is important to note that the legal status of King IV, as with its predecessors, is that of a set of voluntary principles and good practices. If a conflict between legislation and King IV exists, the law prevails. Therefore, the language of ‘apply and explain’, more appropriately conveys the intent of the King IV rather than ‘comply or explain’.

What’s new?
In line with international developments, remuneration is receiving far greater prominence in King IV. As such, King IV is clear that the responsibility for fair and equitable remuneration rests with the Board.

While King III requires a company to have an approved remuneration policy that is voted on by shareholders in the form of a non-binding advisory vote, King IV takes this further by stipulating the minimum requirements of the remuneration policy.

The Code now requires the Board to oversee the implementation of a policy that results in:

- Attracting, motivating, rewarding and retaining talent
- Linking variable remuneration with both organisational and individual employee performance
- Measuring variable remuneration in relation to sustainable value created across the whole of the economic, social and environmental context and in accordance with enhancement or diminishment across the capitals that the company uses or affects

The Board should also oversee that the social and ethics committee reviews fair and responsible executive remuneration practices in the context of overall employee remuneration.

King IV recommends that the Board oversees ongoing dialogue with the shareholder based on the mutual understanding of what performance and value creation constitutes for the purpose of evaluating the remuneration policy. In order to properly draft the policy the Board will be required to properly articulate the link between strategy, sustainable value creation, performance and remuneration.

The policy and the implementation report will have to be approved by non-binding advisory vote by shareholders on a regular basis (in the case of the policy, every two years unless there was a material change to the policy or whenever the policy was not adopted by at least a 75% vote the year before, and on an annual basis in the case of the implementation plan). Should there be a 25% or higher advisory vote against the adoption of the policy or implementation plan, the remuneration committee should take corrective action. Steps taken to initiate shareholder engagement, the nature of the engagement and the outcomes in respect of the above must be disclosed in the following year. An advisory vote against the remuneration policy can negatively affect the performance evaluation of the remuneration committee.

In addition and in accordance with the Companies Act, the fees of the non-executive directors must be approved by special resolution by the shareholders within the previous two years.
King IV requires a three part disclosure relating to remuneration including the remuneration background statement, policy and implementation.

• The background statement disclosure includes the context considerations and decisions as well as the opinion of the remuneration committee on whether the implementation of the policy achieved its stated objectives.

• The overview of the remuneration policy should include the elements and design of the remuneration system, the achievement of fairness and responsibility in the context of overall employee remuneration and the justification of benchmarks. Specific disclosures are required for executive directors to illustrate the application of the remuneration policy under different performance scenarios.

• Remuneration implementation disclosure includes the remuneration paid to or accrued to executive directors and prescribed officers as well as to illustrate the link between remuneration and the contribution by directors and prescribed offers to the value created across the whole of the economic, social and environmental context within which the company operates.

The remuneration committee will have to take cognisance of the above as this will inform the effectiveness of the committee as a whole and will be considered in the performance assessment of the individual committee members. The mandate of the committee has moved beyond the design of executive remuneration packages and now includes the justification of the link between remuneration, value creation and performance within the social, economic and environmental context. The remuneration committee will have to assist the Board with the dialogue with the shareholders to ensure they are comfortable with the correlation between directors’ performance, their individual and collective contribution to value creation and associated remuneration.
King III for the first time officially introduced IT Governance in South Africa and demanded a greater level of IT risk awareness at director level. It recommended that in exercising their duty of care, directors should ensure that prudent and reasonable steps have been taken with regard to IT governance.

In light of the prevalence of the Fourth Industrial Revolution, King IV takes this theme further and recognises information separate from technology 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.

Technology is described in the Code as a way in which to access, protect and manage information, but it is also much more than an information management system. The Code also focuses on the disruptive nature of technology on long-term business models and highlights the significant risk this poses to companies.

The Code recommends that the Board governs both technology and information so that these support the company in achieving its purpose and strategic objectives.

The Board is specifically tasked with approving and overseeing the technology and information policy of the company. The overseeing of these policies should be in relation to:

- Compliance with relevant laws
- Assessing return on investment in technology
- Risk oversight of outsourced technology services
- Providing for business resilience, continuity and disaster recovery
- Information security and protection against cyber crime
- Records management
- Information privacy
- Data quality

Interestingly, the Board is required under King IV to periodically carry out a formal review of the adequacy an effectiveness of the organisation’s technology and information function. Although the assessment of the technology function is reasonably common practice, the formal assessment of the information function is still less common. It is critical that this process is carefully considered and that the nature of this assessment is properly planned. It is our view that the assessment should extend beyond an assessment of the control environment and include a view on the effectiveness of the information strategy of the organisation.

Lastly, the Code requires disclosure on the structures and processes for information and technology, the key focus areas, the mechanisms for monitoring technology and information management as well as the give an indication of how the organisation’s current and future objectives are affected by digital development.
In terms of the Companies Act certain companies are required to appoint a social and ethics committee (SEC). Even if the SEC is not required as per the Companies Act, King IV recommends the establishment of the SEC as best practice for all organisations. It should be noted that the composition requirement echoes the requirement of the Companies Act, which provides for only directors and/or prescribed officers to be members of the SEC. At least one member of the SEC should be a non-executive director.

In the true spirit of integrated thinking, the Code integrates this committee within a greater governance context by recommending that the SEC oversees the socially responsible aspects of the remuneration policy as highlighted above. Furthermore, King IV expands the role of the SEC beyond that outlined in the Companies Act by including the oversight of ethics in its mandate which is not expressly covered in the Companies Act.

The SEC should ensure, monitor and report in respect of organisational ethics, responsible corporate citizenship, sustainable development and stakeholder inclusivity. In essence, the key function of this committee is to act as the social conscience of the business and to ensure that the organisation behaves like a responsible corporate citizen.
King IV emphasises the critical role of stakeholders in the governance process. Not only must the Board consider the legitimate and reasonable needs, interests and expectations of stakeholders as a matter that enjoys intrinsic value, but active stakeholders are required to hold the Board and the company accountable for their actions and disclosures. King IV points out that it adopts the stakeholder inclusive model (as was the case in King III). In terms of this model the needs, expectations and interests of stakeholders are not subject to or dependent on shareholder interests.

The Board should ensure that it provides strategic direction and the necessary policy to enable proper management of the stakeholder relationships. The Board should oversee the effective management of stakeholder relationships that affect value creation and the achievement of the company’s strategic objectives. An important element of this process involves an effective communication plan. King IV makes it clear that companies should have an integrated communication plan that utilises all communication platforms, including digital communication and importantly, social media. The communication plan should also provide for the systematic gathering and analysis of information emanating from communication platforms in order to assess reputational risk. A plan for communicating in crisis situations forms an integral part of the stakeholder communication plan.

With respect to companies specifically, King IV proposes a number of specific measures to ensure effective engagement with shareholders, including steps to ensure that the company encourages shareholders to attend general meetings, attendance of these meetings by the chair of the Board and the chairs of respective Board committees as well as their active participation in meetings. King IV further proposes that the designated partner of the external audit firm should also attend the general meeting.

Shareholder activism is emphasised and encouraged in King IV. The Report indicates that the Board of institutional investors should ensure that the company responsibly exercises its rights obligations, legitimate and reasonable needs, interest and expectations, as holders of beneficial interests in the securities of a company. The institutional investor has a fiduciary duty to those that invest in the funds, and as such the Board of the institutional investor should hold Boards or companies where they invest to account on the application of the voluntary codes of governance.

Retirement funds are currently among the most significant institutional investors in South Africa. The ultimate beneficiaries of the funds are the individual members of retirement funds who have become the new owners of capital. The Boards of retirement funds are key financial decision-makers and invest more than R2.3 trillion annually on behalf of the abovementioned individuals. The sphere of influence of institutional investors, as custodians of members’ assets, is therefore profound. As far as institutional investors specifically are concerned, they carry fiduciary duties towards the ultimate beneficiaries on whose behalf they invest. These fiduciary duties involve the Boards of institutional investors who are accountable to these beneficiaries for preserving and creating value in the same way as companies are accountable to their providers of capital. As such, the Boards of institutional investors need to take an active interest in the companies in which they invest, and hold the Board of those companies accountable to create sustainable value in the short-, medium- and long-term. The Code for Responsible Investing in South Africa (CRISA), Regulation 28 of the Pension Fund Act, United Nations backed Principles for Responsible Investment (PRI) and other related initiatives provide an enabling framework for institutional investors to engage and hold investee companies accountable for sustainable returns.
Six.
Risk & opportunity

Aligned with the King III Code, risk management, opportunity recognition and enablement remain a key focus within the King IV Code. Through the assessment of risk, key opportunities should be considered by companies and their governance oversight structures. Similar to the King III Code, internal audit should audit and express an opinion over the risk and opportunity management function and process.

King IV has emphasised the importance of risk management to assist the company in considering the interdependences of risk. The Board should consider what constitutes excessive risk taking and set the level of risk appetite and tolerance. The Board and associated committee/s should have the appropriate level of oversight and approval. King IV recommends that there should be overlap in membership between the audit and risk committee and that the risk committee should constitute at least three directors majority being non-executives.

Ultimate risk and opportunity management rests with the Board the company and the implementation of the policy is delegated to management. King IV does not refer to the role of the chief risk officer or the CEO in the risk and opportunity management process. The Board should oversee the adequacy and effectiveness of risk and opportunity management and this should focus on the organisation’s resilience to withstand vulnerabilities including recovery plans.

The level of disclosure regarding the effectiveness of the risk and opportunity management process has increased. King IV is calling for organisations to disclose the processes for managing risk and opportunity, key focus areas, mechanisms for monitoring the effectiveness of risk and opportunity management and how uncertainties have affected performance and future strategies.

What’s new?
King III recommended that the audit committee be responsible for recommending the appointment of the external auditor and overseeing the external audit process. Globally there have been developments regarding the assessment of the auditor’s independence as well as the implementation of audit firm rotation in certain jurisdictions. King IV has acknowledged the need to assess and confirm the external auditor’s independence, but does not specifically address audit firm rotation.

The King IV Code suggests that the audit committee oversees auditor independence. This aligns with the publication of the rule by the Independent Regulatory Board for Auditors that the number of years for which the audit firm has been the auditor of the company be disclosed in the auditor’s report. In addition, the audit committee will need to disclose any significant audit matters considered and how the committee has addressed the matters. In terms of the auditing standards, the auditor is required to address all key audit matters, among other issues, in order to provide the user of the annual financial statements with some context when they assess said statements. The additional disclosure should be considered for inclusion in the audit committee report and will need to include:

- Satisfaction of the auditor’s independence with reference to:
  - the nature and extent of non-audit services rendered
  - audit firm tenure, and in the event of a merger or acquisition, the tenure of its predecessor, and
- audit partner rotation and significant management changes during the course of audit firm tenure
- Arrangements in place for the finance function and internal audit, and the audit committee’s views on their effectiveness
- Arrangements in place for a combined assurance model, and the audit committee’s views on its effectiveness
- The audit committee’s views on the effectiveness of internal financial controls and the nature and extent of material weaknesses in the design, implementation or execution of internal financial controls that resulted in material financial loss, fraud, corruption or material errors
- Significant matters that the audit committee considered in relation to the external assurance over reports, and how these were addressed

What’s new?
King III included a separate principle in which a governance framework should have been agreed between the group Board and its subsidiary Board.

King IV deals with group governance differently in that it allocates responsibility for the oversight of the implementation of a group governance framework to the holding company Board. The group governance framework should be approved and adopted by each subsidiary Board. As such, King IV confirms that directors owe their fiduciary duties to the company where they serve as director – in short, the subsidiary Board needs to ensure that it acts in the best interest of the subsidiary when applying group policy. King IV suggests several matters which should be addressed in the group governance framework including the delineation of the rights and role of the company and the extent of the adoption of governance and operational policies across the group.
WHAT'S DIFFERENT?
King IV has refined the concept and requirements of combined assurance by introducing the five level Combined Assurance Model. The model introduces the concept of horizontal and vertical relationships with reference to the depth and reach of the assurance provider. The model activities are coordinated to allow the matrix of assurance providers to enable effective control environment and integrity of reports.

King IV recommends that the audit committee should establish the combined assurance model, as well as oversee the implementation of the combined assurance. The audit committee should oversee the scope of the model as informed the material risks and opportunities.

The combined assurance model within the King III Code was introduced through the principle of the audit committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities’. The integrated combined assurance model has been allocated specific objectives within the King IV Code, primarily to assist the Board in assessing the adequacy and effectiveness of the internal control environment and assessing the integrity of the information used for reporting and decision-making. The combined assurance model and the components therein will therefore need to not only align the internal risk and control components but will need to consider external stakeholder reporting. Through the combined assurance model greater emphasis will be placed on providing assurance of the reliability of external reporting, i.e. primarily the Integrated Report. King IV requires the Board to apply its mind to this. The ability of the combined assurance model to provide this level of assurance will greatly depend on the effectiveness of such a model.

What’s different?
Two.

Definition of INDEPENDENCE OF DIRECTORS

The concept of independence has evolved from the position in King III. Whereas King III provided a list of disqualification from independence, King IV takes a more practical approach and focuses on the perception of independence, rather than factual independence or a tick-box approach. King IV emphasises the fact that independence is predominantly a state of mind which is a moral characteristic and legal duty of all directors.

Although the value of the inclusion of independent directors on the Board is widely recognised and practised, there is a growing concern that the over-emphasis of independence may lead to the under-valuation of industry skill and experience, as some may regard these two concepts as mutually exclusive. However, the composition of Board is approached from different angles to ensure not only a balance of power, but also from a diversity point of view. As such, King IV points out that a balance can only be created if the composition of the Board accounts for a balance of required skills, experience, diversity, independence and knowledge of the company. Independence, though important, is but one consideration. All of these factors (including independence) collectively yield a balanced Board. All directors, including the independent directors, should have a comprehensive understanding of the industry within and the business of the companies that they serve.

As pointed out above, King IV adopts a conceptual approach to independence, i.e. the level of independence of any particular director should be viewed and judged from the perspective of an informed third party. The key question to be answered here is whether or not, in the perception of an informed outsider, a director has an interest, relationship, association or position which may lead to biased decision-making.

What’s different?
As mentioned above, King III provided a list of which indicates the criteria for disqualification from being classified as independent. In King IV, the focus is on the perception of an informed third party, and the list of criteria provided acts merely as a guide to consider on a substance-over-form basis. The list of factors to be collectively considered during the independence inquiry includes, but is not limited to:

- being a shareholder, or an officer or employee of a shareholder, who has the ability to control or significantly influence management or the Board
- being a shareholder where the holding is material to the personal wealth of the member of the Board
- having been in the employ of the company or the group in any executive capacity during the preceding three financial years
- being a member of the immediate family of an individual who is, or has been during the preceding three financial years, employed by the company or the group in an executive capacity
- having been the auditor responsible for performing the statutory audit for the company, or a key member of the audit team of the external audit firm, during the preceding three financial years
- having been an external legal adviser for an extended period during the preceding three financial years
- being a significant professional adviser to the company or the group, other than as a director
- being a director or an executive of a material customer of, or supplier to, the company, or
- being entitled to remuneration contingent on the performance of the company.

Interestingly, the approach adopted in King IV seems to be in line with the approach adopted in section 94 of the Companies Act where the requirements for membership of the audit committee are set out. In this section it is made clear that the view of an informed third party is decisive in application of the criteria. (It is interesting to note that shareholding per se, or representing of a shareholder, is in itself not a disqualification for audit committee membership in terms of the Companies Act).
King III encouraged the Board to play a prominent role in the strategy-development process and to approve both long-term and short-term strategies. This involvement in the strategy-development process has been controversial in that many Boards felt that management should develop the strategy with the Board providing oversight of the process.

King IV clarifies this position and specifically requires the Board to approve the formal strategy by which the company’s core purpose and longer-term direction is set, and then provide oversight over the policies and plans that are developed from the approved strategy.

These policies and plans should include the scope within which business decisions are taken and should provide the criteria and measures against which the Board intends to assess management’s performance.

Similar to King III, the Code encourages the disclosure of the company’s purpose and longer-term direction and also its performance in terms of the value created for itself and its stakeholders. This disclosure is in line with the requirements of Integrated Reporting, but should - under King IV - be considered carefully in the context of the related disclosure requirements on executive remuneration.
King III introduced the concept of the triple bottom line reporting, where profit, planet and people were taken into consideration when reporting on performance. Financial performance in the short term needed to be balanced by the impacts and effects on the environment and society within which the organisation operated.

The King III dedicated a chapter to sustainability reporting, elevating the sustainable agenda to the highest governance level within a company. The King III Code discussed concepts that were interrelated when considering the sustainability agenda including stakeholder engagement, risk and performance and sustainable strategy deployment. King III required that the Board should ensure the integrity of the company's Integrated Report.

The concepts and principles introduced by the Integrated Reporting Framework by the IIRC (International Integrated Reporting Council) in 2013 have been reaffirmed in the King IV Code. King IV has incorporated the philosophy of integrated thinking into the Code while reaffirming the governance oversight and involvement required. King IV recognises the need for company's oversight bodies to consider their value creation and preservation story within the context of the 6 capitals (as introduced in the Framework). The Code has reaffirmed the importance of the ability to manage and monitor performance, risk and opportunities across the 6 capitals through the company's business model while taking key stakeholder consideration into account.

King IV introduces the importance of the combined assurance model in achieving credibility over the Integrated Reporting process and outcome. The assurance over external reporting has been highlighted within King IV and the responsibility of the Board/audit committee to provide the necessary oversight over this process. King IV specifically addresses assurance over reporting that is not regulated for example Integrated Reporting assurance. Considering the risk within unregulated reporting, the Board/audit committee should consider whether the process or data will be assured, determine the boundary of such assurance, the level of assurance, and the criteria against which the assurance will be evaluated. The Board/audit committee will need to consider the assurance requirement over future-orientated information.

King IV requires companies to disclose the description and nature of the assurance work performed over the published reports, other than financial statements, as well as the assurance conclusion.

While the King IV Code has underpinned the concepts of Integrated Reporting and thinking, the Code does not seem to guide companies in the Integrated Reporting disclosure requirements. King IV's introductory sections makes reference to the IIRC Integrated Reporting Framework and the need for companies to embrace the principles and disclosure elements of the framework. The individual outcome disclosure requirements however do not make a direct link to the disclosure in the Integrated Report. Often reference is made to the organisation's report and external reporting. It appears that the objective of making the Code applicable to different types of companies, private and public, large and small, for profit and NGOs, has impacted on the ability to make direct reference to the companies' report as the primary means of disclosure.

What's different?
In the spirit of transparency, King IV emphasises the role of disclosure in managing stakeholder relationships. The disclosure requirements in the Code are far more onerous than previous requirements. Examples include:

- the additional disclosure required with regard to the implementation of the remuneration policy,
- disclosure of the results of a formal review of the company’s risk management,
- disclosure of the extent of adoption and implementation of policies and procedures of the holding company by subsidiaries as well as the effectiveness of ethics management.

The impact of these additional disclosures should not be underestimated. In many instances, and in particular more controversial matters such as the remuneration policy implementation, the disclosure of loss of office payments and the mechanisms used to assess the effectiveness of ethical governance will have to be carefully assessed and managed.
Deloitte welcomes this new version of the King Report as it not only provides a more practical, principle-based approach to good corporate governance, but also incorporates both global public sentiment and international regulatory change since King III was issued in 2009. The Code is principle-based and follows an outcomes-based rather than rules-based approach. This is in line with current international developments which promotes greater accountability and transparency and speaks to the expressed view that the application of the Code should contribute to the performance and health (sustainability) of the company.

Our clients often debate the aspirational nature of corporate governance in South Africa taking into consideration the relative stage of development of our economy and the cost burden that progressive governance brings. While we are sensitive to the impact on global competitiveness from a cost perspective, we feel that it is fitting for South Africa to aspire to an internationally leading corporate governance code to compensate for other geo-political sentiments impacting on investor confidence.

We believe that King IV is bolder than ever and its very clear focus on ethical leadership, transparency and sustainable growth is to be commended. It is our view that companies that strived to comply with the spirit of King III will adjust to King IV with relative ease.
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