

# *Benefits of King III*

Implications of King III on  
College Governance  
(roles and responsibilities)

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# *Agenda*

## Introduction

## Chapters

1. Ethical leadership and corporate citizenship
2. Boards (Council) and directors (Management)
3. Audit committees (Combined Assurance)
4. The governance of risk
5. The governance of information technology
6. Compliance with laws, codes, rules and standards
7. Internal audit
8. Governing stakeholder relationships
9. Integrated reporting and disclosure

# *Introduction*

## **Overview**

The release of King III on 1 September 2009 represents a significant milestone in the evolution of corporate governance in South Africa and brings with it significant opportunities for organisations that embrace its principles.

King III became necessary because of the anticipated new Companies Act and changing trends in international governance.

As with King I and King II, the King Committee endeavoured to be at the forefront of governance internationally and this has again been achieved by focusing on the importance of reporting annually on how a company has both positively and negatively affected the economic life of the community in which it operated during the year under review and how the company intends to enhance those positive aspects and eradicate or ameliorate any possible negative impacts.

Milestone in the evolution of corporate governance

Necessitated by changes in international trends

Organisations to consider their impact on the communities in which they operate

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# *Introduction*

## **The benefits of self-regulation**

“The ultimate compliance officer is the organisation’s stakeholders who will let the organisation know by their continued support of the organisation if they accept the departure from a recommended practice and the reasons furnished for doing so.”

Self-regulation limits the bureaucratic burden of externally enforced standards.

Stakeholders act as  
“compliance officers”

Focus on self-  
regulation

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# *Introduction*

## **Governance Framework**

King III has opted for an ‘apply or explain’ governance framework. Where the board believes it to be in the best interests of the company, it can adopt a practice different from that recommended in King III, but must explain it. Explaining the different practice adopted and acceptable reasons for it, results in consistency with King III principles.

The framework recommended by King III is principles-based and there is no ‘one size fits all’ solution. Entities are encouraged to tailor the principles of the Code as appropriate to the size, nature and complexity of their organisation. This is good news for companies in South Africa as it avoids some of the pitfalls seen in the United States where a ‘one size fits all’ approach was initially adopted.

**Apply or explain**

**Application should be tailored to size, nature and complexity of business**

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# *Introduction*

## **To whom does King III apply?**

In contrast to the King I and King II codes, King III applies to all entities regardless of the manner and form of incorporation or establishment. Principles are drafted on the basis that, if they are adhered to, any entity would have practiced good governance.

Applicable to all  
entities

It is recommended that all entities disclose which principles and/or practices they have decided not to apply or explain. This level of disclosure will allow stakeholders to comment on and challenge the board to improve the level of governance within an organisation.

Disclose “apply or  
explain”

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# ***1. Ethical leadership and corporate citizenship***

## **Principles:**

- Council should provide effective leadership based on an ethical foundation
- Council should ensure that the college is and is seen to be a responsible corporate citizen
- Council should ensure that the college's ethics are managed effectively

Council = Effective ethical leadership

Corporate citizenship

Manage ethics

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# *1. Ethical leadership and corporate citizenship*

## **Moral duties of council members / management:**

- **Conscience:** Act with intellectual honesty and independence of mind in the best interests of the college and all its stakeholders. Conflicts of interest should be avoided.

Honest & Independent

- **Inclusivity** of stakeholders is essential to achieving sustainability and the legitimate interests and expectations of stakeholders must be taken into account in decision-making and strategy.

Legitimate interests & expectations of stakeholders

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# *1. Ethical leadership and corporate citizenship*

## **Moral duties of council members / management:**

- **Competence:** Have the knowledge and skills required for governing a college effectively.
- **Commitment:** Be diligent in performing his/her duties and devote sufficient time to college's affairs.
- **Courage:** Have the courage to take the risks associated with directing and controlling a successful, sustainable enterprise, and also the courage to act with integrity in all council decisions and activities

Knowledge & Skills

Diligence & Time

Take risk to achieve  
success

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# ***1. Ethical leadership and corporate citizenship***

## **Ethical values underpinning good corporate governance:**

- Responsibility
- Accountability
- Fairness
- Transparency

## **Benefit:**

Structured approach for leaders to reflect on the role of colleges in society – what is our impact on the economy, society and the environment?

## ***2. Boards (Council) and directors (Management)***

### **Principles:**

- Council is focal point and custodian of corporate governance
- Council is responsible for ethical leadership and corporate citizenship
- Council should ensure that the college has an effective and independent audit committee

Corporate governance

Ethical leadership &  
corporate citizenship

Audit committee

## ***2. Boards (Council) and directors (Management)***

### **Principles:**

- Council should:
  - Be responsible for the governance of risk
  - Be responsible for information technology (IT) governance
  - Ensure that the college complies with applicable laws and considers adherence to non-binding rules, codes and standards
  - Delegate certain functions to well-structured committees but without abdicating its own responsibilities

Governance of risk

IT governance

Compliance with law(s)

Delegate functions

## ***2. Boards (Council) and directors (Management)***

### **Principles:**

- Council should:
  - Ensure that there is an effective risk-based internal audit
  - Appreciate that stakeholders' perceptions affect the college's reputation
  - Ensure the integrity of the company's integrated report
  - Report on the effectiveness of the college's system of internal controls

Internal audit

Stakeholder perception

Integrated reporting

Effectiveness of controls

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## ***2. Boards (Council) and directors (Management)***

### **Principles:**

- Council and management should act in the best interests of the college
- Council should elect an independent chairman
- Council should appoint the chief executive officer and establish a framework for the delegation of authority

Best interest of college

Independent chair

Delegation of authority

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## ***2. Boards (Council) and directors (Management)***

### **Principles:**

- Formal appointment process
- Formal induction of and ongoing training and development
- Annual evaluation of the council, its committees and the individual managers should be performed every year
- Colleges should pay fair and responsible remuneration

Appointment, induction  
and training

Evaluation

Remuneration

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## ***2. Boards (Council) and directors (Management)***

### **Key principles:**

- The role and function of Council and its committees
- The composition and performance evaluation of the Council and its committees
- The Council appointment process
- Councillor / Management development
- Remuneration.

### **Benefit:**

A college that is headed by a council which directs, govern and is effectively controlling the college

### 3. Audit committees

#### Key principles:

- The responsibility of the audit committee has been extended beyond financial reporting to **include sustainability reporting**. This has a direct impact on the **required skill-set** of the audit committee
- The constitution, size and sufficiency and appropriateness of the skill-set of the audit committee may need to be reconsidered by the board
- Audit committees are to **coordinate the utilisation of appropriate assurance providers** in the assurance model to provide assurance on the identified risks
- **Increased time and resource commitments** are needed for audit committees, management and internal audit to adequately review internal financial controls

Consider skills set of audit committee

Coordinate assurance providers

Increased time and resource commitments and liability risk

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### ***3. Audit committees***

#### **Key principles (continued):**

- Audit committees will be **reporting**, in public, on the **effectiveness of internal financial controls**. This may increase audit committee members' liability risk.

Report on  
effectiveness of  
internal financial  
controls

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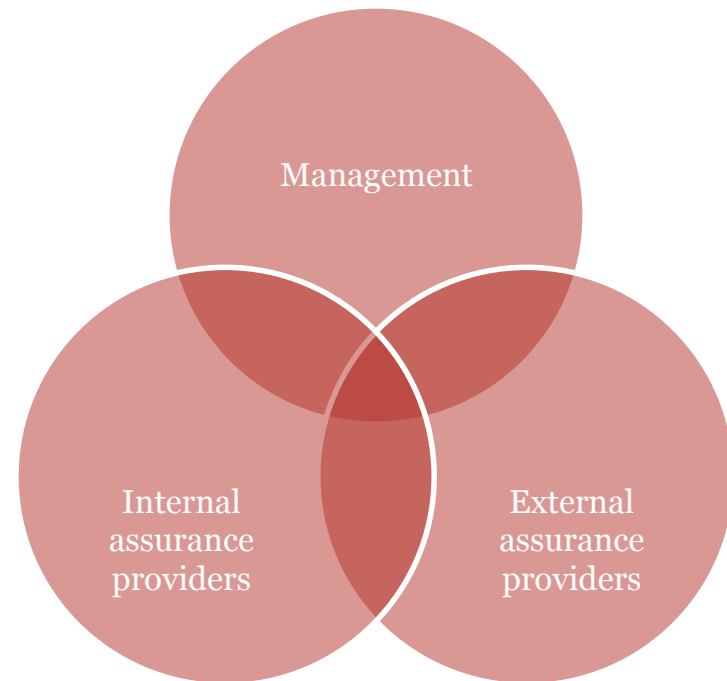
### ***3. Audit committees - Combined assurance***

#### **Key principles:**

Combined Assurance is a co-ordinated approach to all assurance activities to ensure that assurance provided by:

- management;
- internal assurance providers (such as internal audit); and
- external assurance providers (such as external audit or sustainability assurance providers)

That the company adequately addresses significant risks facing the company and that suitable controls exist to mitigate and reduce these risks



**Combined Assurance**

### ***3. Audit committees - Combined assurance***

#### **Implication for audit committees:**

- Audit committees are able to assess significant risks facing the company with information on hand
- Assessment to be made of in-house skills and qualifications and track record of external service providers
- Audit committees to coordinate the utilisation of appropriate assurance providers in the assurance model (management, internal or external assurance providers) to provide assurance on the identified risks
- May result in the increased utilisation of external assurance providers

Do we have the necessary risk information to determine who provides assurance on key risks?

How many assurance providers are we currently using?

Who will own and drive the combined assurance initiative?

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## ***3. Audit committees***

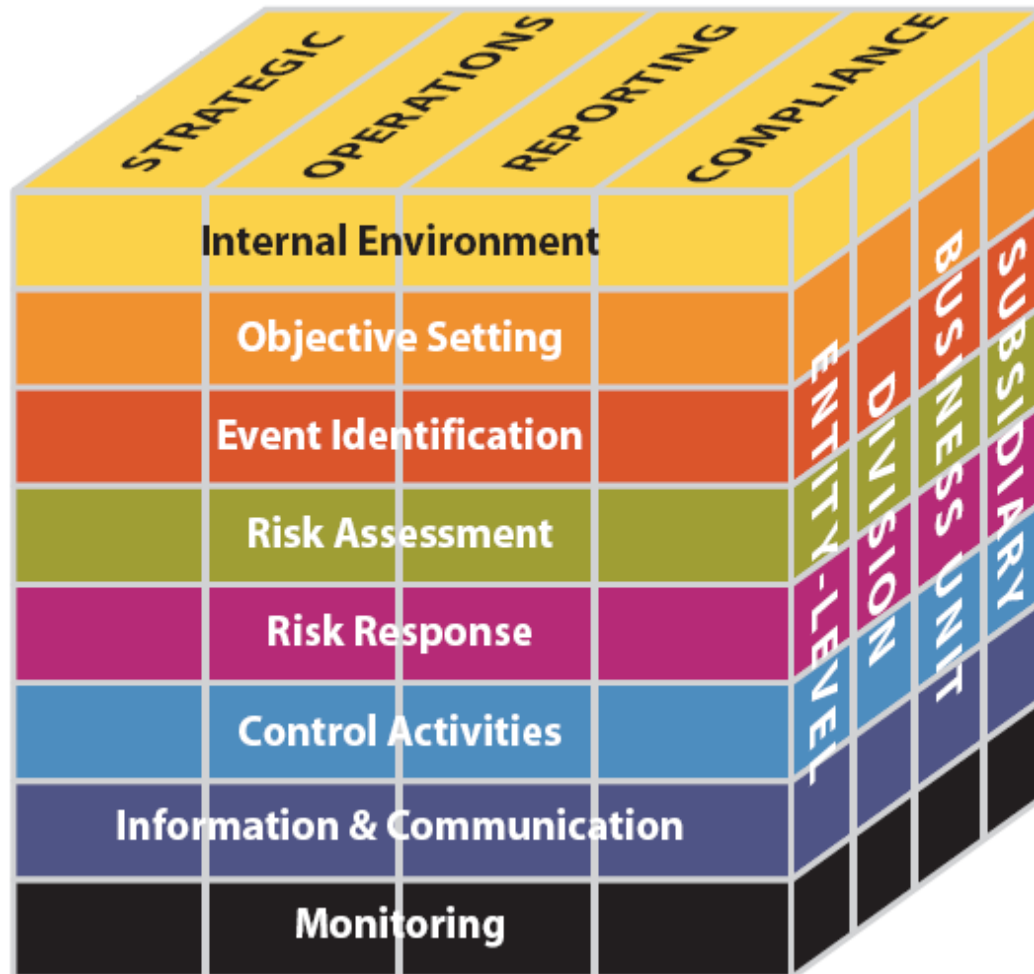
### **Benefit:**

#### Improved:

- Risk management;
- IT Governance;
- Reporting;
- Assurance; and
- Oversight (combined assurance)

## 4. Governance of risk

Sponsoring  
Organisations  
of the  
Treadway  
Commission  
(COSO)  
September 2004



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## ***4. Governance of risk***

### **Benefit:**

- Integrated risk management;
- Reduced operational surprises;
- Improved deployment of capital; and
- Improved profitability

## ***5. The governance of information technology***

- IT has become an integral part of doing business today.
- IT is fundamental to the support, sustainability and growth of organisations.
- IT is pervasive across the majority of organisations – IT is an operational enabler for a company, and a strategic asset which can be leveraged to create opportunities and to gain competitive advantage.
- Together with the above opportunities, technology also presents organisations with significant risks - Opportunities, advantages, risks and constraints related to IT should be well governed and controlled to ensure that IT supports the strategic objectives of the organisation.
- Management should ensure that prudent and reasonable steps have been taken in regard to IT governance.

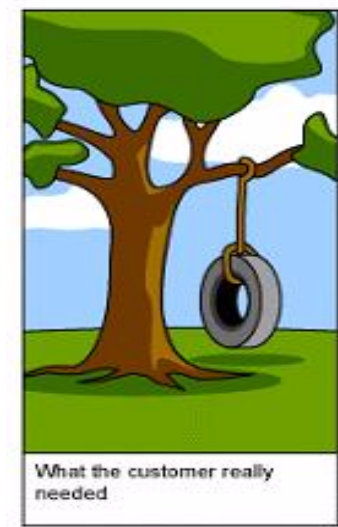
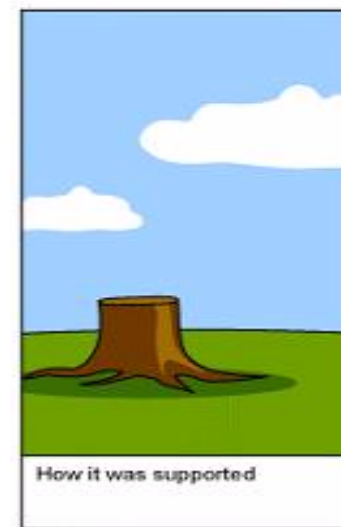
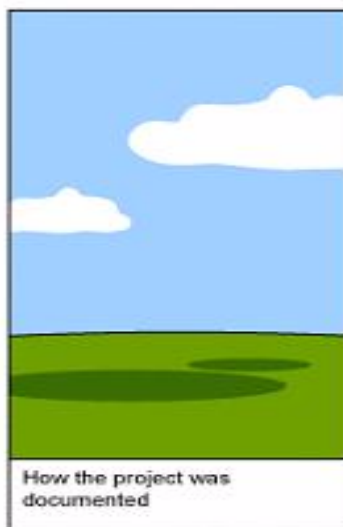
IT has become an integral part of doing business

IT is an essential operational enabler and strategic asset

Could pose significant risks

## 5. The governance of information technology

### Clear statement of requirements



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## ***5. The governance of information technology***

### **Benefit:**

- Stable systems;
- Reliable information; and
- Improved profitability

## ***6. Compliance with laws, rules, codes and standards***

- Colleges must comply with all applicable laws. Laws should be understood not only in terms of the obligations that they create, but also for the rights and protection that they afford.
- The Council is responsible for the college's compliance with applicable laws and with those non-binding rules, codes and standards with which the college has elected to comply. This includes the responsibility to monitor the college's compliance.
- Business and compliance responsibilities can be split:
  - Corporate / Head office
  - Human resources
  - Taxation
  - Production
- Level of division dependent on compliance applicable to business.

Compliance is the responsibility of Council

Compliance must be monitored

Can split into: corporate, HR, tax and production

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## ***6. Compliance with laws, rules, codes and standards***

### **Benefit:**

- Reduced risk of legal disputes
- Enhanced reputation

## 7. *Internal audit*

### Key requirements:

- Risk Based Internal Audit
- Annual report disclosure in the event that an effective internal audit function was not maintained;
- An organisational custodian function in situations where internal audit is outsourced;
- Reviewing organisational ethics;
- Cost optimisation and the prevention of assurance fatigue;
- An assessment of the control environment;
- The relationship between internal audit and audit committees;
- The role and attributes of a chief audit executive;
- The implementation of an internal audit quality assurance and improvement programme;
- The interdependency between internal audit and other assurance providers such as risk management.

Risk based IA

Disclosure requirements

Assess control environment

Manage assurance providers

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## ***7. Internal audit***

### **Key support for Audit Committee:**

- Risk management;
- IT Governance;
- Combined assurance; and
- Integrated reporting

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## ***8. Governing stakeholder relationships***

### **Key requirements:**

- “Stakeholder relationships form an integral part of the concept of good corporate citizenship” and provide a platform for companies to take into account the concerns and objectives of the organisation’s stakeholders in its decision-making, which is fundamental to the process of integrated reporting.

Identify

Develop strategy

Engagement

Communicate

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## ***8. Governing stakeholder relationships***

### **Benefits:**

- Improved communication;
- Stakeholder buy in;
- Prioritisation of projects; and
- Improved profitability

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## 9. *Integrated reporting and disclosure*

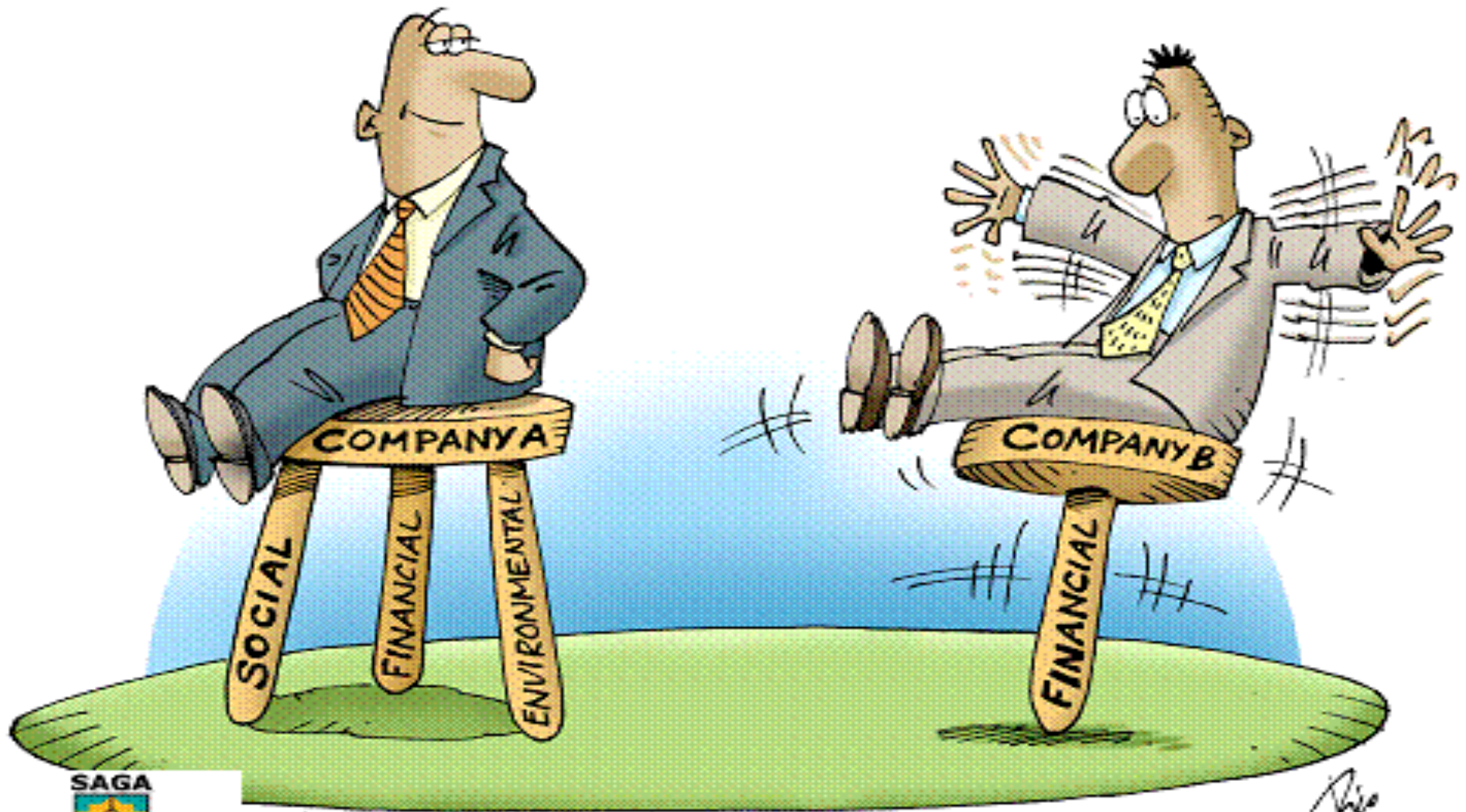
### Considerations for implementation:

- Driven through stakeholder expectations
- Items to consider
  - Who are the key stakeholders
  - Are any listings planned
  - Are they planning to sell the business
  - Major capital funding required
  - Government contracts
  - Expansion to global markets
  - Other regulatory requirements
- What aspects of the report do I have to assure?

Stakeholder  
expectation is key

Decide on which  
aspects you may need  
assurance

## 9. *Integrated reporting and disclosure*



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