

King IV and its impact on metros/munics

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King IV Introduction (1)

- As a Chartered Director (SA) and also a Corporate Governance Specialist I was invited to attend the launch by the IOD(SA) of the King IV Code 1 November 2016 at the Sandton Convention Centre
- **Unlike the previous King Codes the King IV Code now applies to all private sector companies and public sector organisations and now also includes ALL METROS and MUNICIPALITIES (i.e. categories A,B and C as per the Municipal Structures Act and includes all MOEs’).**
- King IV replaces King III in its entirety
- Disclosure on the application of King IV is effective in respect of financial years **starting on or after 1 April 2017**, but immediate transition is encouraged.
- Since the publication of the first King Report, SA has maintained a proud tradition of corporate governance. King IV is the fourth iteration of that report, and sets out the philosophy, principles, practices and outcomes which serve as the benchmark for corporate governance in SA

King IV Introduction (2)

Who are the various stakeholders:

- Parties who contract with the entity e.g. customers, employees , suppliers etc
- Parties who have a non-contractual nexus with the entity e.g. civil society, local communities, NGOs, the environment
- The State as legislator or regulator

King IV Introduction (3)

Outputs versus outcomes approach now:

- Strategy no longer stops at outputs
- Council/Board needs to be informed of stakeholder relationships
- Council/Board needs to be informed of value creation sources
- Council/Board needs to be informed of how the company makes its money
- Council/Board needs informed oversight
- Agenda item: inputs to outcomes –King IV

King IV Introduction (4)

- **Corporate governance for the purpose of King IV , is defined as the exercise of ethical and effective leadership by the governing body (includes the Municipal Council, Board of Directors, etc.) towards the achievement of the following governance outcomes:**
 - Ethical culture
 - Good performance
 - Effective control
 - Legitimacy

King IV Introduction (5)

- Ethical and effective leadership should complement and reinforce each other
- **I am of the opinion that King IV will now play a bigger role and impact the “business” of metros/munics from a corporate governance perspective.**
- King IV advocates an outcomes-based approach compared to an outputs-based approach in King III
- King IV as with its predecessors, is that of a set of voluntary principles and leading practices

King IV Introduction (6)

- The application regime for King IV is **“apply and explain”**
- King IV also emphasises and drives **integrated thinking and integrated reporting**
 - Understanding, knowing and then planning
 - How the company will sustain value creation in the long term
 - Council/Board should determine, inputs, activities, outputs, outcomes
- In this regard I will provide further details at the next AMEU Committee meeting in George
- **King III Code contained 75 principles**, while the new **King IV Code consolidates these into 16 principles**, with the remaining guidance encapsulated within recommended practices.

King IV Principles (1)

- The following are the King IV key principles that will apply to all the metros and munics
 - **Principle 1:** The Council should lead ethically and effectively
 - **Principle 2:** The Council should govern the ethics of the municipality in a way that supports the establishment of an ethical culture
 - **Principle 3 :** The Council should ensure that the municipality is and seen to be a responsible corporate citizen
 - **Principle 4:** The Council should appreciate that the municipality's core purpose is risks and opportunities, strategy, business model, are all inseparable elements of the value creation process performance and sustainable development

King IV Principles (2)

- **Principle 5:** The Council should ensure that reports issued by the municipality enable stakeholders to make informed assessments of the municipality's performance and its short, medium and long-term prospects
- **Principle 6:** The Council should serve as the focal point and custodian of corporate governance in the municipality
- **Principle 7:** The Council 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 Council 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

King IV Principles (3)

- **Principle 9:** The council should ensure that the evaluation of its own performance and that of its committees, its speaker and its individual councillors , support continued improvement in its performance and effectiveness
- **Principle 10:** The Council should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities
- **Principle 11:** The Council should govern risk in a way that supports the municipality in setting and achieving its strategic objectives
- **Principle 12:** The Council should govern technology and information in a way that supports the municipality
- **Principle 13:** The Council should govern compliance with applicable laws and adopted non-binding rules, codes and standards in a way that supports the municipality being ethical and a good corporate citizen

King IV Principles (4)

- **Principle 14:** The Council should ensure that the municipality 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 Council 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 municipality external reports
- **Principle 16:** In the execution of its governance role and responsibilities the Council should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the municipality over time

Thank you....