

A photograph of two men in business attire sitting at a table in a meeting. The man on the left is a Black man in a dark pinstriped suit, gesturing with his hands as if speaking. The man on the right is a white man with glasses in a light blue shirt and tie, listening attentively. The background is a blurred office setting with warm lighting.

Draft King III at a glance

25 February 2009

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King III released for public comment

- King III released for two month public comment period by the Institute of Directors (IOD) on 25 February 2009
- King II report updated for
 - Proposed changes to the Companies Act (currently the Companies Bill, 2008)
 - Changes in international governance trends
- Remains principles based
- Cautions against general legislative corporate governance reform to address current credit crisis
- Final King III report will be effective from 1 March 2010
- King III available on the IOD's website www.iodsa.co.za

Applicability of the Code

	King III	King II
Applicability	Applies to all entities, regardless of their nature, size or form of incorporation	<ul style="list-style-type: none"> • Listed companies • Financial institutions • Public sector enterprises
Positive statement of compliance	Similar requirements to King II	<p>The directors should report in the annual report that the Code has been adhered to.</p> <p>Reasons should be given for non-compliance</p>
Governance framework	“Apply or explain” as opposed to “comply or else”	“Comply or explain” as opposed to “comply or else”

King III chapters

Chapter 1	Boards and directors
Chapter 2	Corporate citizenship: leadership, integrity and responsibility
Chapter 3	Audit committees
Chapter 4	Risk management
Chapter 5	Internal audit
Chapter 6	Integrated sustainability reporting and disclosure
Chapter 7	Compliance with laws, rules and standards
Chapter 8	Managing stakeholder relationships
Chapter 9	Fundamental and affected transactions

Implications for companies, boards of directors and audit committees

- Scope of corporate governance framework in South Africa widened
- Entities encouraged to tailor the Code principles as appropriate to the size, nature and complexity of their businesses
- The board or those charged with governance should explain to stakeholders where a specific principle or recommendation has not been applied

King III – Key risk and reporting implications

Integrated reporting

Combined assurance

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Integrated reporting

- Integrated approach to decision making reflected in integrated reporting
- Statutory financial information and sustainability information should be integrated (referred to as the “integrated report”)
- Annual financial statements consist of:
 - Auditor’s report;
 - Directors’ report; and
 - Balance sheet, income statement, cash flow statement, statement of changes in equity and related notes
- “Integrated report” consists of
 - Annual financial statements; and
 - Integrated sustainability (economic, social and environmental) information

Integrated reporting (continued)

- Integrated report should be prepared annually
- Integrated reporting should be balanced between positive aspects and challenges facing the business
- Integrated report should also provide forward-looking information
- Board may delegate responsibility for, and review of the sustainability information to either the risk committee, sustainability committee or audit committee

Implications for companies, boards of directors and audit committees

- Companies to dedicate time and resource to the preparation of integrated report
- Integrated reporting entails more than a mere “add-on” of economic, social and environmental information in the annual report – sustainability reporting to be embedded in the organisation
- Responsibility of the audit committee may be extended beyond financial reporting to include sustainability reporting
- Audit committees may need additional expertise in discharging their responsibilities

Combined assurance

What is combined assurance?

A coordinated approach to all assurance activities

to ensure that assurance provided by

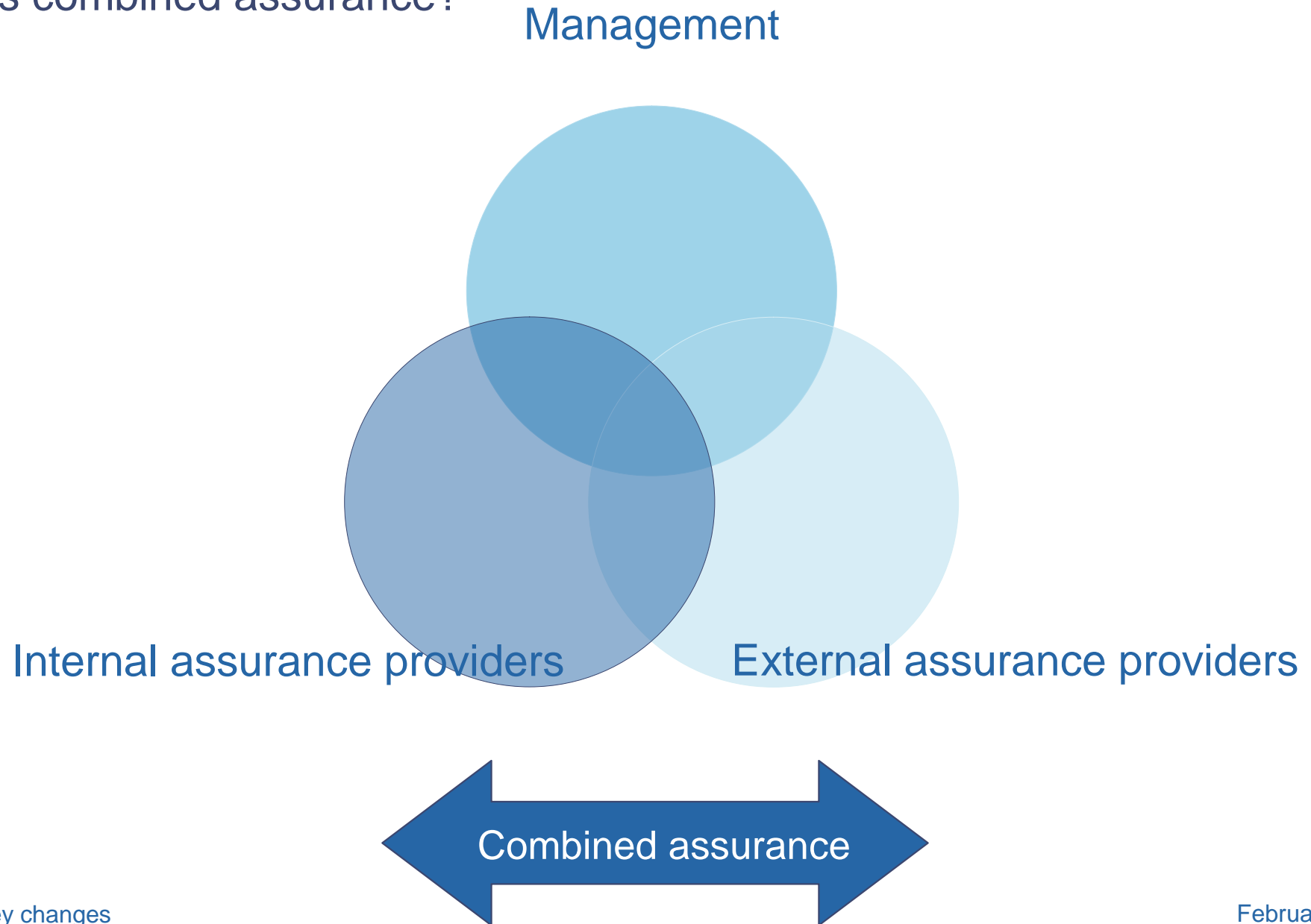
- management;
- internal assurance providers (such as internal audit); and
- external assurance providers (such as external audit or sustainability assurance providers)

adequately addresses significant risks facing the company and that

suitable controls exist to mitigate and reduce these risks

Combined assurance (continued)

What is combined assurance?



Combined assurance (continued)

- King III identifies areas on which assurance should be obtained
 - Effectiveness of internal financial controls
 - Management's assertions about the robustness and effectiveness of risk management
 - Sustainability information
- Audit committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities

Implications for audit committees

- Audit committees to identify significant risks facing the company
- 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

Statement on effectiveness of internal financial controls by the board of directors

- Board responsible for the integrity of financial reporting systems
- Board to make a statement in the integrated report on the effectiveness of internal financial controls
- Audit committee should annually report to the board on effectiveness of internal financial controls
- Management (or internal audit) to conduct a formal documented review of design, implementation and effectiveness of internal financial controls on an annual basis

Statement on effectiveness of internal financial controls by the board of directors (continued)

- Audit committee to determine the nature and extent of the review
- Audit committee to holistically consider information from all sources, including management, internal audit, external audit and other assurance providers before concluding on effectiveness of internal financial controls
- Attestation from the external auditors on internal financial controls not a requirement

Statement on effectiveness of internal financial controls by the board of directors

How does this compare to the SOX requirement?

Section 404 of Sarbanes-Oxley Act:

- Annual report should include an internal control report that
 - States management's responsibility for establishing and maintaining an adequate internal control structure and procedures for financial reporting and
 - Contains an assessment of the effectiveness of the internal control structure and procedures of the issuer for financial reporting
- Attestation from the external auditors required on management's assertion regarding internal financial control

Statement on effectiveness of internal financial controls by the board of directors

How does this compare to the SOX requirement? (continued)

King III highlights that SOX's statutory requirements for rigorous internal controls has not prevented collapse of many leading names in US banking and finance

- King III and SOX similar in requiring directors to make a statement on the effectiveness of internal financial controls
- King III does not require attestation from external auditors on internal financial controls

Implications for companies, boards of directors and audit committees

- Increased time and resource commitments for audit committees, management and internal audit regarding a formal, documented review of internal financial controls
- Board of directors to assess the adequacy of available skills to conduct internal financial controls reviews
- Board of directors accountable as their conclusions on the effectiveness of internal financial controls will be on public record

Risk-based internal audit

- Internal audit function's planning and approach should be informed by the strategy of the company
- Chief audit executive (CAE)'s internal audit planning should
 - assess the company's strategic, financial, IT, operational, human and environmental risks and opportunities
 - align with the company's risk assessment process
 - focus on rendering an assessment of the company's control environment
 - consider the company's risks and opportunities identified by management and other key stakeholders
 - take cognisance of industry relevant emerging issues
 - discuss the adequacy of the resources and skills available to the CAE with the audit committee

Implications for companies, boards of directors and audit committees

- Internal audit planning and approach should be risk-based rather than compliance-based
- A CAE of appropriate stature, who has the respect and cooperation of the board and management, should be appointed
- Internal audit reporting lines to be evaluated – internal audit should report at a level in the company that allows it to remain independent and objective to ensure it fully achieves its responsibilities
- Consideration to be given to the CAE becoming a member of the company's executive committee

IT governance

- Dealt with in detail for the first time in King III
- IT governance should focus on four key areas:
 - Strategic alignment with the business and collaborative solutions, including the focus on sustainability and the implementation of ‘green IT’ principles;
 - Value delivery: concentrating on optimising expenditure and proving the value of IT;
 - Risk management: addressing the safeguarding of IT assets, disaster recovery and continuity of operations; and
 - Resource management: optimising knowledge and IT infrastructure
- COBIT may be used to check adequacy of the company’s information security – no “one size fits all” solution

Implications for companies, boards of directors and audit committees

- The board should operate with IT governance in mind
- IT should be on the board agenda
- IT performance should be measured and reported to the board
- The board should set a management framework for IT governance based on a common approach (for example COBIT)
- Audit committees should oversee IT risks and controls

King III – Other new concepts/topics

Shareholder approval of remuneration policies

Directors' performance evaluation

Business rescue

Alternative dispute resolution (ADR)

Fundamental and affected transactions



Other new concepts / topics

Shareholders' approval of remuneration policies

- Board to put forward a policy of remuneration for shareholder approval in general meeting

Directors' performance evaluation

- Board should consider whether directors' performance evaluation should be done in-house or by independent service providers

Business rescue

- Board required to commence business rescue proceedings as soon as the company is financially distressed

Other new concepts / topics (continued)

Alternative dispute resolution (ADR)

- King III favours mediation or conciliation and, failing that, arbitration over referral to a court or e.g. the Companies Tribunal

Fundamental and affected transactions


- King III contains generally accepted principles of good governance which will supplement proposed Takeover Regulations expected in 2009

PwC contacts

For further information, please contact your PwC engagement partner or any of the following:

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A photograph of two men in business attire sitting at a table, engaged in a conversation. The man on the left is Black and wearing a dark pinstriped suit. The man on the right is white, bald, wearing glasses, a white shirt, and a tie. They are both looking towards each other. The background is blurred, showing what appears to be a meeting room with a lamp and some items on the table.

“The philosophy of the Report revolves around leadership, sustainability and corporate citizenship”

-Mervyn King