

King III

Apply or Explain

March 2010



Overview of King III

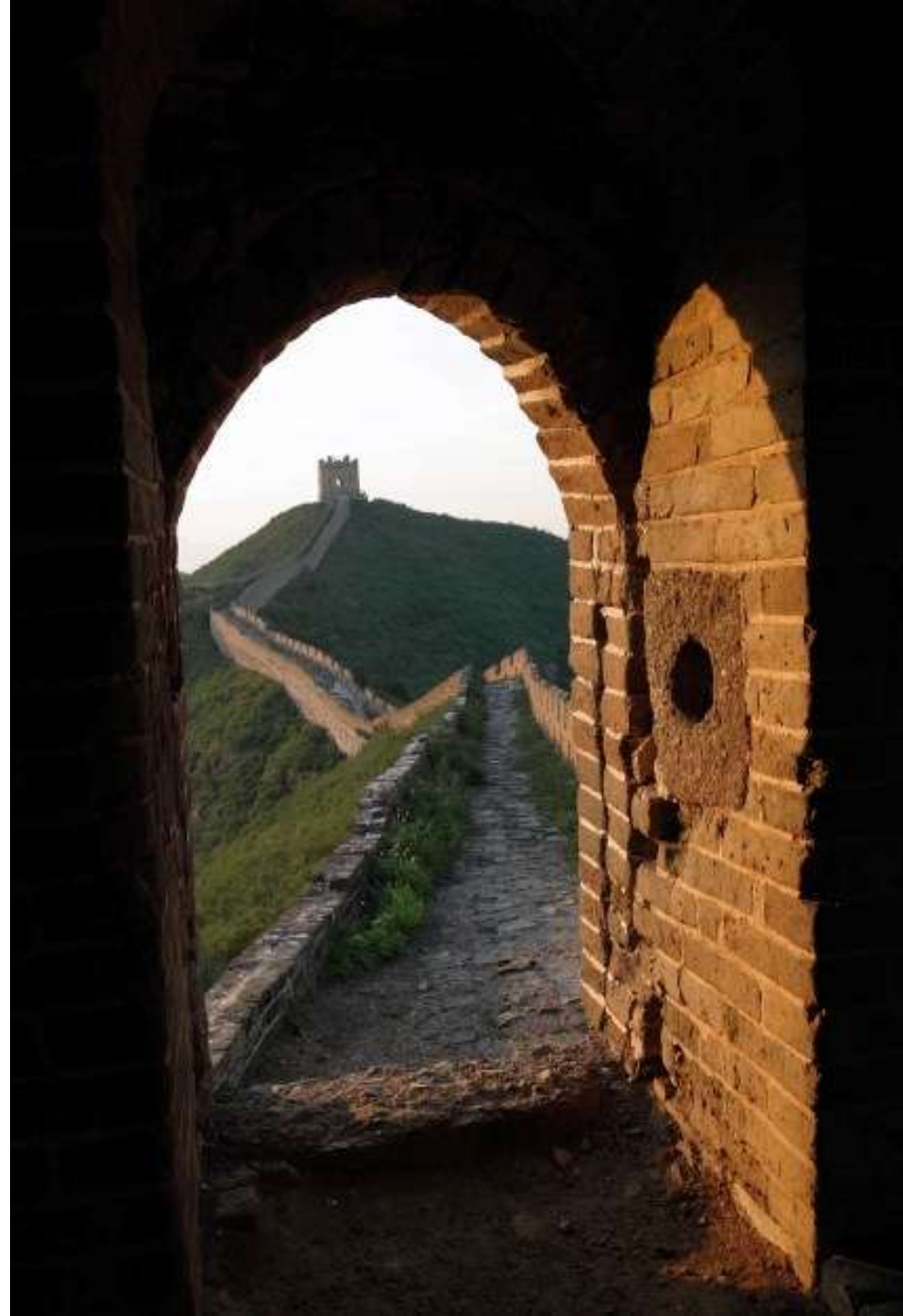
- Remains **Principles based**
- **Stakeholder- inclusive** approach
- Key Themes
 - **Leadership**
 - **Sustainability**
 - **Corporate citizenship**
- Effective from 1 March 2010
- Applies to **all entities**, regardless of their nature, size or form of incorporation (incorporated in or resident in SA)
- **“Apply or explain”** as opposed to “comply or else”

The King III document

Chapter 1	Ethical Leadership and corporate citizenship
Chapter 2	Boards and Directors
Chapter 3	Audit Committees
Chapter 4	The governance of risk
Chapter 5	The governance of information technology
Chapter 6	Compliance with laws, codes, rules and standards
Chapter 7	Internal audit
Chapter 8	Governing stakeholder relationships
Chapter 9	Integrated reporting and disclosure

The practical application of
King III

Ethical leadership
and corporate
citizenship



Ethical leadership and corporate citizenship

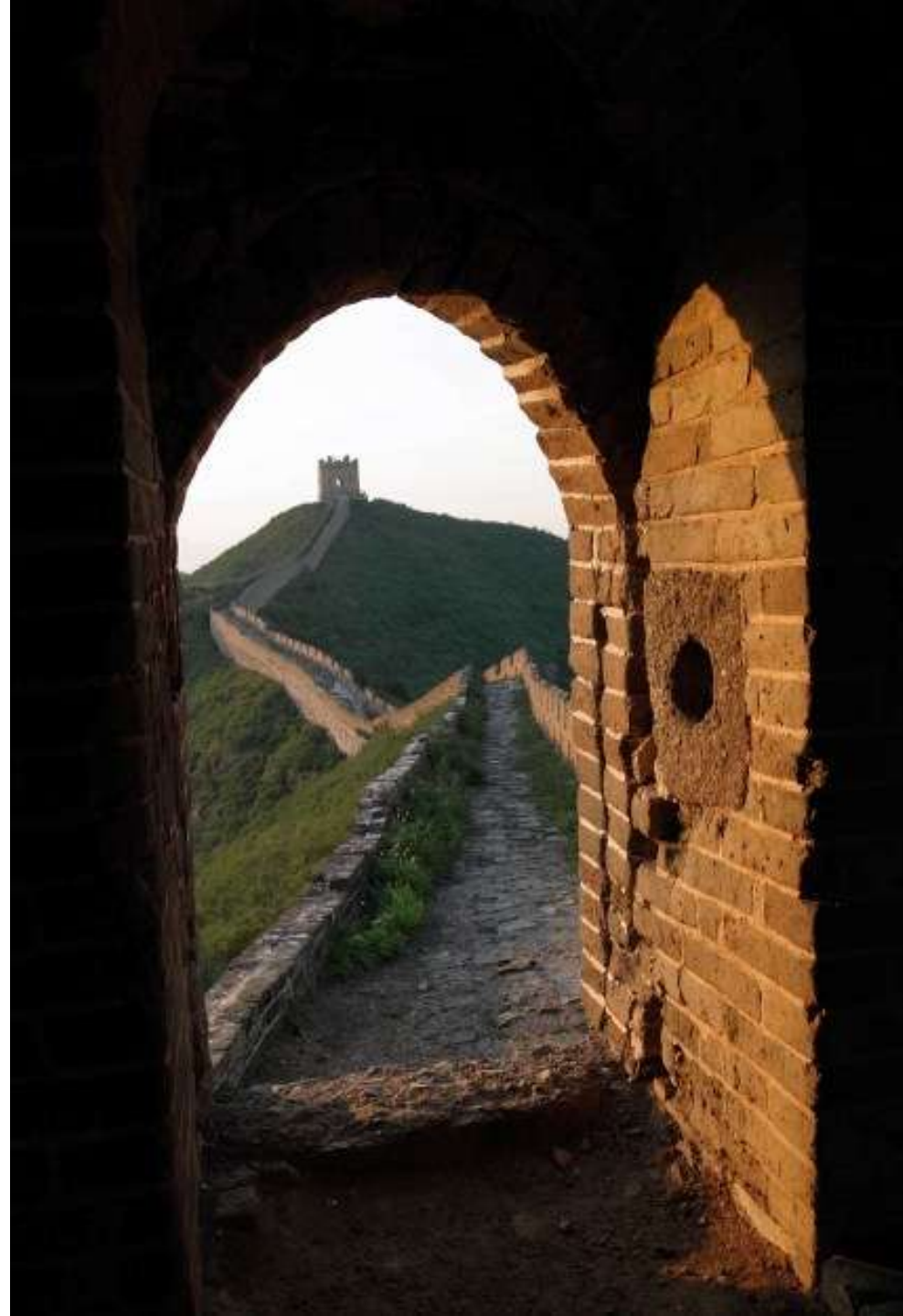
- Effective leadership based on an ethical foundation
- The organisation is and is seen to be a responsible corporate citizen
- The organisation's ethics are managed effectively

President Zuma: 2009 State of Nation address:

“We are committed to a **service delivery culture** that will put every **elected official and public servant** to work for our people, and **ensure accountability** to our people”

The practical application of
King III

Boards and Directors

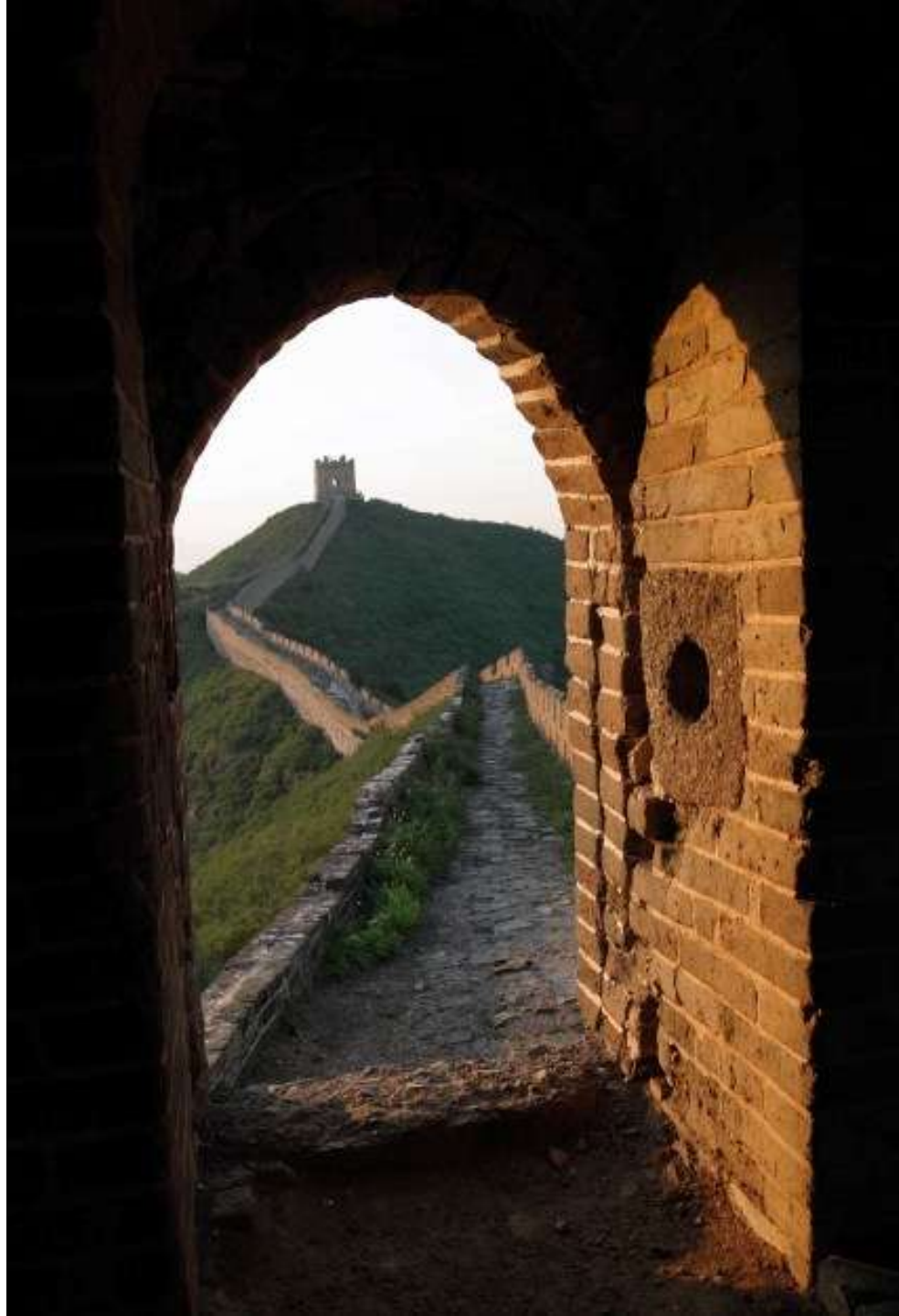


Boards and Directors

- The focal point for and custodian of corporate governance
- Strategy, risk, performance and sustainability are inseparable
- The organisation has an effective and independent audit committee
- Responsible for the governance of risk
- Responsible for IT governance
- An effective risk-based internal audit
- Ensure the integrity of the organisation's integrated report
- Report of effectiveness of system of internal control
- Act in the best interests of the organisation

The practical application of
King III

Audit Committees

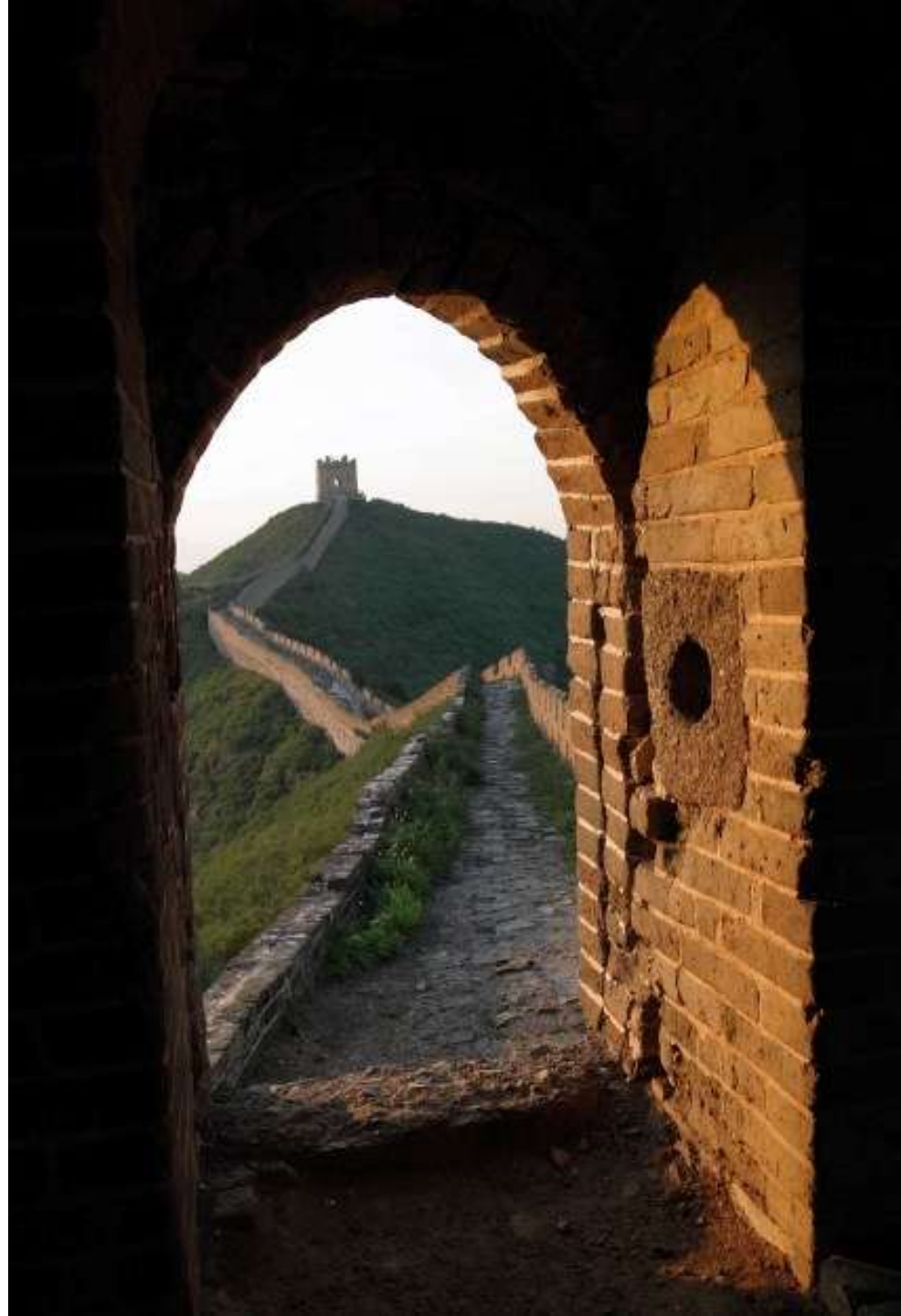


Audit committees

- The organisation has an effective and independent audit committee
- The audit committee should oversee integrated reporting
- A combined assurance model should be applied to provide a coordinated approach to all assurance activities
- Oversight of finance function
- Responsible for the oversight of internal audit
- An integral part of the risk management process
- Report of the effectiveness of internal financial controls
- Report to the board and shareholders on how it has discharged its duties

The practical application of
King III

The governance of
risk

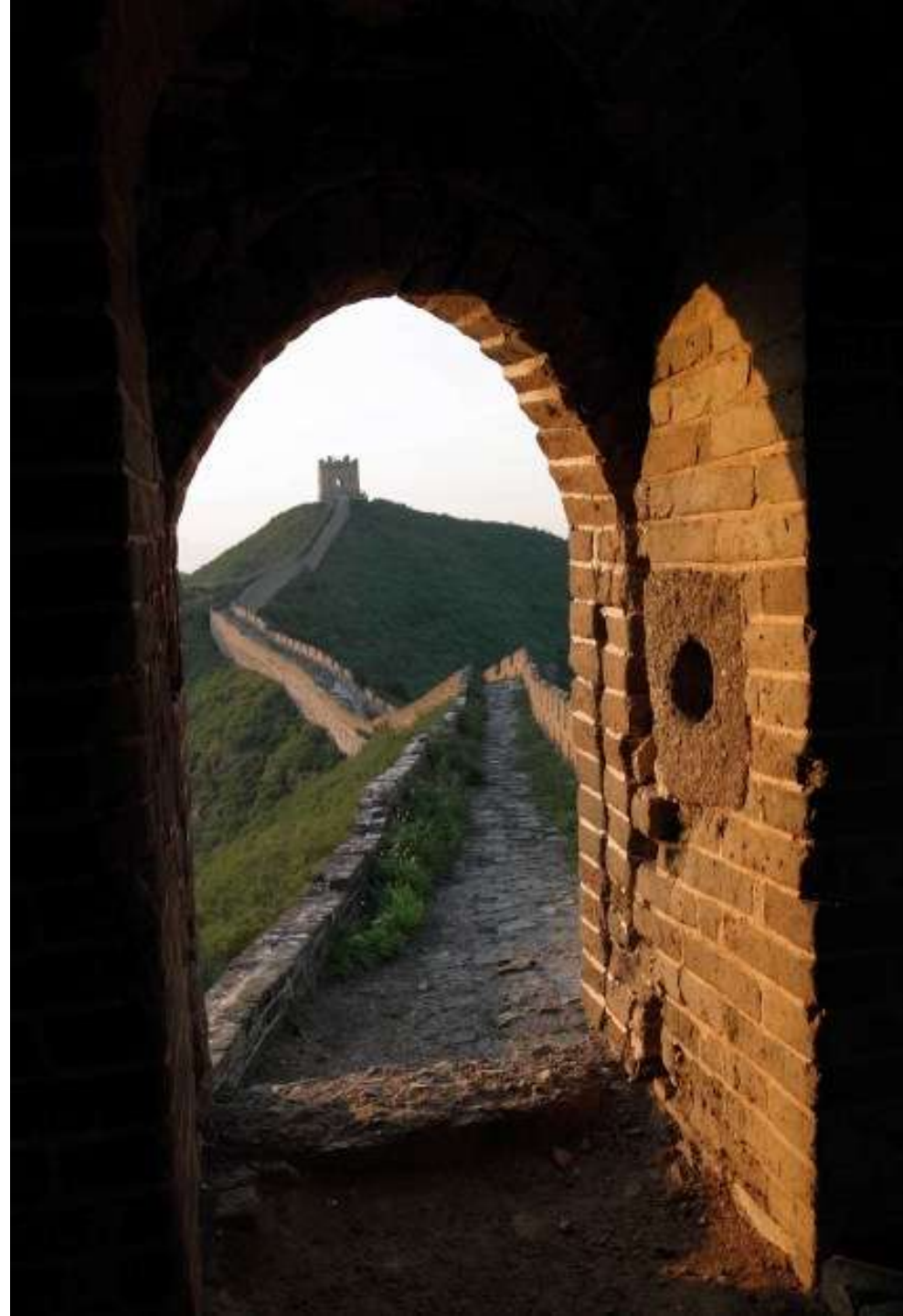


The governance of risk

- Inseparable from the organisation's strategic and business processes
- Determine levels of **risk tolerance – resilience** and approve policy
- The risk or audit committee should assist the board in carrying out its **risk responsibilities**
- **Management has the responsibility to design, implement and monitor** the risk management plan
- Risk assessments are performed on a **continuous** basis
- Framework and methodologies are implemented to increase the possibility of **anticipating unpredictable risks**
- Management considered and implements appropriate **risk responses**
- **Continuous risk monitoring** by management
- The board should receive combined assurance regarding the **effectiveness of the risk management** process

The practical application of
King III

IT governance



The board should be responsible for information technology (IT) governance

- Board should assume full responsibility and place it on the **board agenda**
- **Risk committee** to ensure **IT risks** are adequately addressed
- **IT charter and policies** are established and implemented
- **IT internal control framework** is adopted and implemented
- The board should receive **independent assurance** on the effectiveness of the IT internal controls

IT Governance

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

IT security should focus on three key areas:

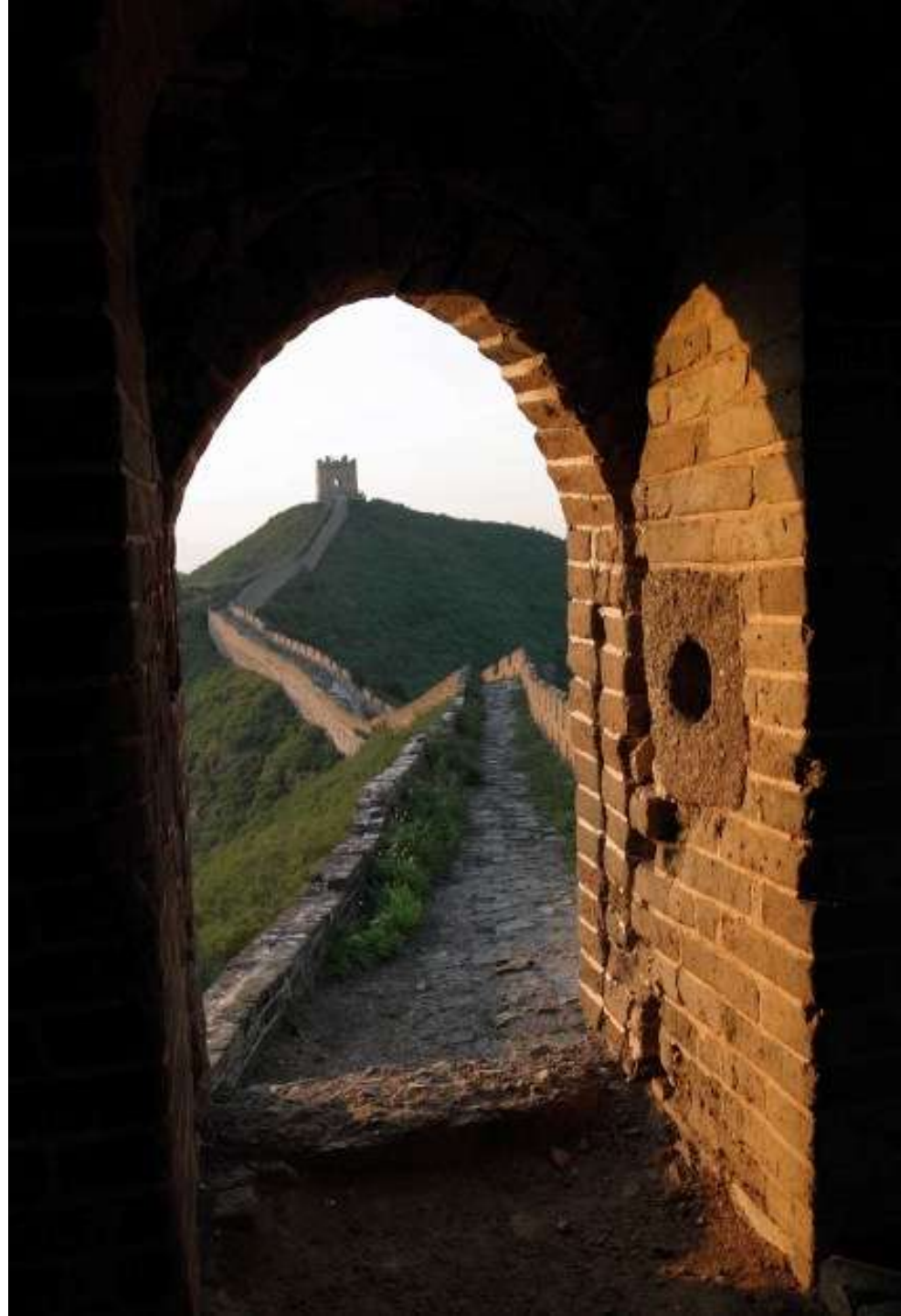
Confidentiality

Integrity

Availability

The practical application of
King III

Compliance with
laws, codes, rules
and standards



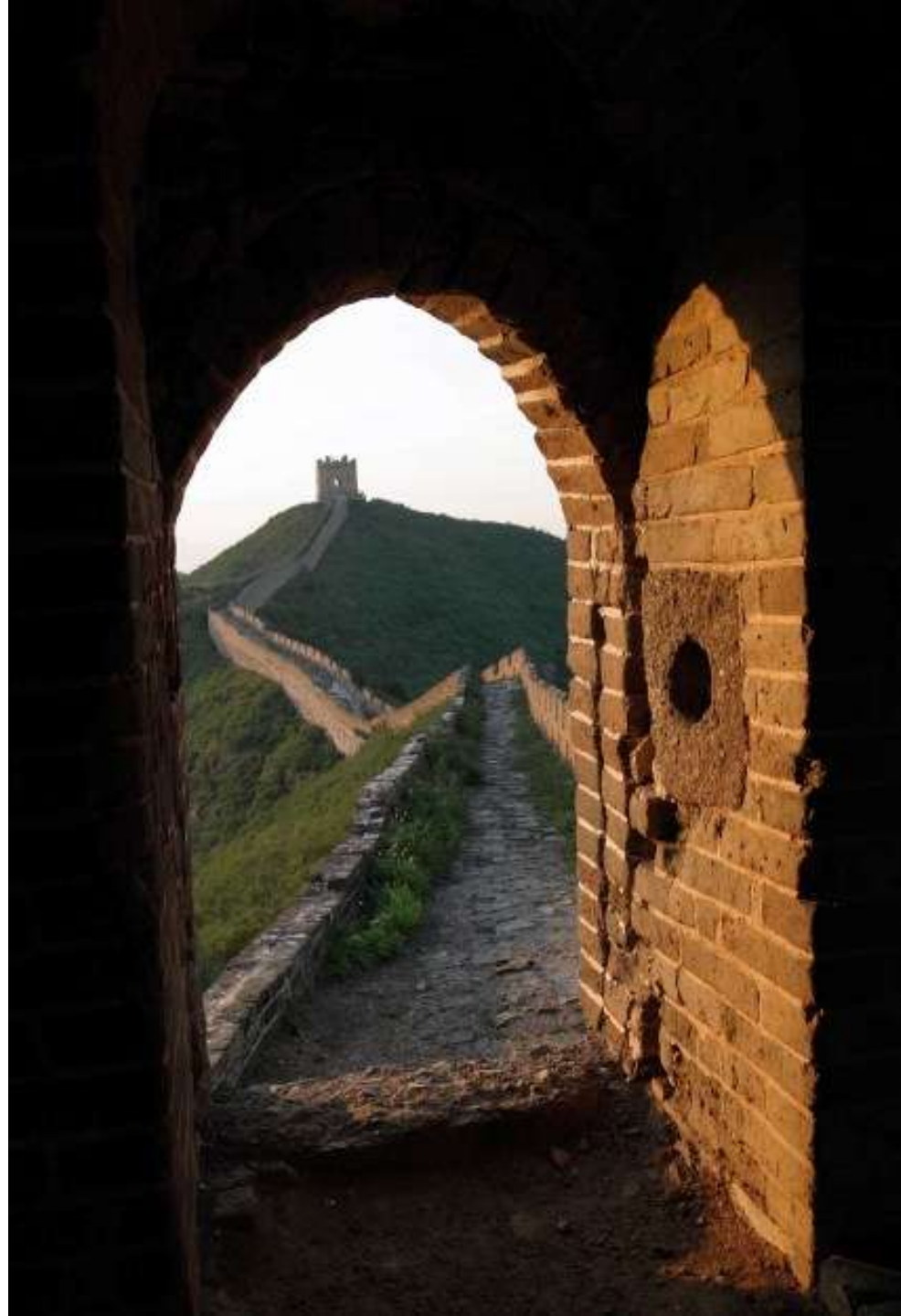
Compliance with laws, rules and standards



- The organisation complies with applicable laws and should consider adherence to non-binding rules and standards
- Management to have a working knowledge of applicable laws, rules, codes etc
- Compliance should form an integral part of the risk management process
- Implement and effective compliance framework and processes

The practical application of
King III

Internal Audit



Internal Audit



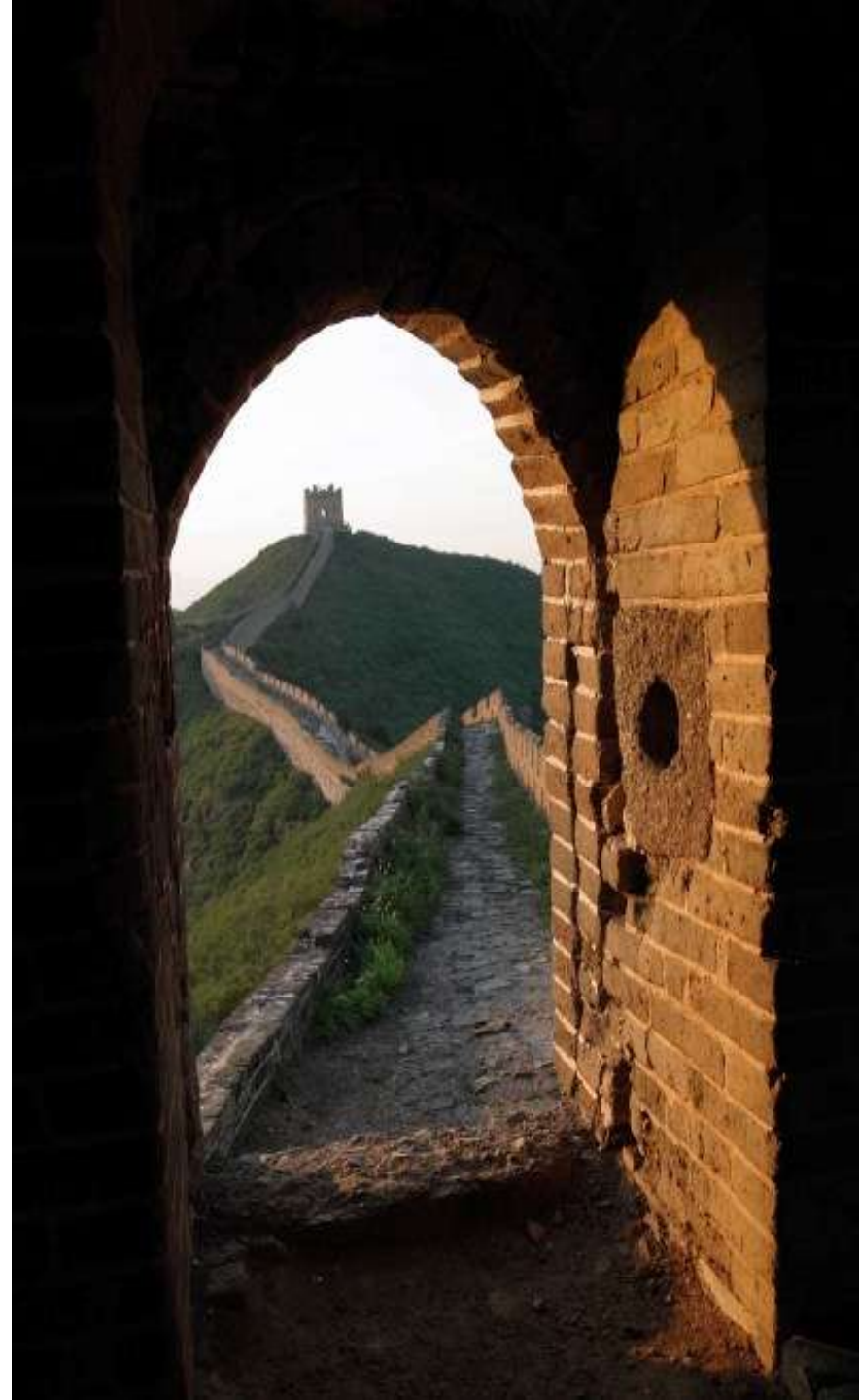
- **Effective risk based internal audit**
 - Evaluating the company's **governance processes**
 - Objective assessment of the effectiveness of **risk management and the internal control framework**
 - Analysing and evaluating business process and associated controls
- **Follow a risk based approach to its plan**
 - Informed by the **strategy and risks** of the company
 - Assess the company's **risks and opportunities**

Internal Audit - continues

- Provide a **written assessment** of the effectiveness of the company's system of **internal controls and risk management to the board**
 - An integral part of the **combined assurance model** as internal assurance provider
 - Internal controls should be established not only over financial matters, but also **operational, compliance and sustainability** issues
 - Written assessment of **internal financial controls** to the audit committee
- The audit committee should be responsible for the oversight of internal audit
 - Subjected to an **independent quality review**

The practical application of
King III

Governing
stakeholder
relationships
and
Integrated Reporting



Stakeholder relations

- The company should **identify material stakeholders** and assess the **related risks and opportunities**
- The company should have a **stakeholder strategy and policy** in place
- The company should develop a **mechanism for constructive stakeholder engagement** with all of the material stakeholders
- Strive to achieve the **appropriate balance** between the various stakeholder groupings
- **The board should adopt communication guidelines for stakeholders** covering the content of the report, publishing policies and the nature of the interaction with stakeholders

Sustainability

Integrated reporting and disclosure



“Reporting should be integrated across all areas of performance”

- 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
- **Sustainability issues** should be reported annually in the integrated report. The report should be **comparable, material, reliable** as well as understandable and assessable
- The integrated report should be **independently assured** for **reliability** internally and to **build trust** externally

CONTACT DETAILS

- DENNY GOVENDER
- [E-MAIL - denny.govender@za.pwc.com](mailto:denny.govender@za.pwc.com)
- Mobile - 083 310 9935
- Landline - 035 901 8896