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CORPORATE ADVISORY SERVICES

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STELLENBOSCH, WC

**KING IV REPORT ON
CORPORATE
GOVERNANCE:
IT'S RELEVANCE FOR
LOCAL GOVERNMENT**

**THE ROLE OF GOVERNANCE
STRUCTURES**

INTRODUCTION

**SAQA : SOUTH AFRICAN QUALIFICATIONS
AUTHORITY ACT, 1995**

**NATIONAL QUALIFICATIONS FRAMEWORK
ACT, 2009**

- In 2013, the ILGM was awarded a recognition status as a professional body.
- Its professional designation was also registered.

INTRODUCTION

- The Policy and Criteria for Recognising a Professional Body and Registering a Professional Designation sets out the following objectives:
 - To promote a public understanding and trust in the profession;
 - To encourage social responsibility and accountability within the profession relating to professional services to communities and individuals;

INTRODUCTION

- To promote pride in association for all professions, including traditional trades and occupations;
- Promote the protection of the public by professional bodies from malpractice related to the fulfillment of the professional duties and responsibilities of professionals registered with them.

- Basically, this is the standard in which a professional body registered must maintain in order to remain registered.
- The professional body does not exist and cannot exist outside of its members.
- This therefore means that the same standard is required of its members, both at an individual level as well as the organisations within which they operate.

LOCAL GOVERNMENT CONTEXT

(Responsible for promoting, upholding the principles of good governance)

○ ADMINISTRATION

- Municipal Manager, the Managers directly accountable to the Municipal Manager as well as the entire personnel complement of the Municipality.

○ POLITICAL

- Governance Structure comprises of the Municipal Council and its Committees

OBJECTS OF LOCAL GOVERNMENT



OBJECTS OF LOCAL GOVERNMENT

- The objects of local Government are the following:
 - to provide democratic and accountable government for local communities;
 - to ensure the provision of services to communities in a sustainable manner;
 - to promote social and economic development;

OBJECTS OF LOCAL GOVERNMENT

- to promote a safe and healthy environment; and
- to encourage the involvement of communities and community organisations in the matters of local government.

DEVELOPMENTAL MANDATE



Developmental Mandate

- A municipality must—

structure and manage its administration and budgeting and planning processes to give priority to the basic needs of the community, and to promote the social and economic development of the community.

GOOD GOVERNANCE



GOOD GOVERNANCE

- By simply considering the objects of Local Government as well as the developmental mandate for Local Government, one can simply conclude that the legislator intended to promote and to uphold the principles of good governance.
- The promotion of good governance is crucial for the running of the municipality.

GOOD GOVERNANCE

- In a nutshell....Good governance in the context of local government means the ability to acknowledge the need for effective and efficient running of the municipalities.
- **Challenges:**
 - **Poor IT/ICT Governance** (Loss of data and poor policy framework)
 - **Lack of oversight** (Establishment and evaluation of Council Committees)
 - Poor record keeping
 - Financial management and controls
 - Lack of pre-determined objectives

GOOD GOVERNANCE

- The White Paper on Local Government, of 9 March 1998, states that “developmental local government is local government committed to working with citizens and groups within the community to find sustainable ways to meet their social, economic and material needs and improve the quality of their lives.”

GOOD GOVERNANCE

- The white paper further provides that the principles for service delivery include “accountability for services” and “sustainability of services”, while basic financial policy principles include “sustainability” *(of financial resources)* as well as “accountability, transparency and good governance”.

KING IV REPORT ON GOOD GOVERNANCE, 2016



KING IV REPORT

- In a nutshell, if one considers the way that the report is structured, one will quickly realise that it provides a solid base of principles which municipalities can work with to navigate through the ever-changing local government environment.
- The Sector supplements on local government have been improved to strongly uphold the principles of good governance in the local government sector.

KING IV REPORT...

- What stands out in the report is the promotion of transparency and a strong need for good corporate citizenship.
- This simply means that the organisations are to be transparent in the application of their corporate governance practices.

OBJECTS OF THE KING IV REPORT

- Promote corporate governance as integral to running an organisation (governing body) and delivering governance outcomes such as ethical culture, good performance, effective control and legitimacy.
- Reinforce corporate governance as a holistic and interrelated set of arrangements to be understood and implemented in an integrated manner.

OBJECTS OF THE KING IV REPORT

- Promote and encourage transparency and to ensure meaningful reporting to the stakeholders.
- To ensure corporate governance that is not only concerned with structure and process, but also with an ethical consciousness and conduct.

KING IV PRINCIPLES...

explained



THE PHILOSOPHY OF KING IV REPORT

- Ethical and effective leadership
- Municipality's role and responsibility in society
..Corporate citizenship(S152(1) Const)
- Sustainable development
- Stakeholder inclusivity and responsiveness
- Integrated reporting and integrated thinking

THE PHILOSOPHY OF KING IV REPORT

Note:

The 75 King III principles have been consolidated into 17 principles in the King IV, each linked to very distinct outcomes

LOCAL GOVERNMENT SECTOR SUPPLEMENTS



TERMS USED

TERM IN KING IV CODE	TERM IN MUNICIPALITY
1. Organisation	Municipality
2. Governing Body	Municipal Council
3. Management	Administration
4. Members of the Governing Body	Councillors

TERMS USED

TERM IN KING IV CODE	TERM IN MUNICIPALITY
5. Chair	Speaker
6. CEO	Municipal Manager
7. External Auditors	Auditor General
9. Shareholders	Community
10. Stakeholders	Community & other

ETHICAL CULTURE (Principle 1.1-1.3)

○ Principle 1.1

The Governing Body should set the tone and lead ethically and effectively;

○ Principle 1.2

The Governing Body should ensure that the organisation's ethics are managed effectively;

○ Principle 1.3

The Governing Body should ensure that the organisation is a responsible corporate citizen.

PERFORMANCE AND VALUE CREATION (Principle 2.1-2.2)

- **Principle 2.1**

The Governing Body should lead the value creation process be appreciating that strategy, risk and opportunity, performance and sustainable development are inseparable elements;

PERFORMANCE AND VALUE CREATION (Principle 2.1-2.2)

o Principle 2.2

The Governing Body should ensure that reports and other disclosures enable stakeholders to make an informed assessment of the performance of the organisation and its ability to create value in a sustainable manner;

ADEQUATE AND EFFECTIVE CONTROL (PRINCIPLE 3.1-4.5)

o Principle 3.1

The Governing Body should serve as the focal point and custodian of corporate governance in the organisation;

o Principle 3.2

The Governing Body should ensure that in its composition it comprises a balance of the skills, experience, diversity, independence and knowledge needed to discharge its role and responsibilities;

ADEQUATE AND EFFECTIVE CONTROL (PRINCIPLE 3.1-3.5)

o Principle 3.3

The Governing Body should consider creating additional governing structures to assist with the balancing of power and the effective discharge of responsibilities, but without abdicating accountability;

o Principle 3.4

The Governing Body should ensure that the appointment of, and delegation to, competent executive management contributes to an effective arrangement by which authority and responsibilities are exercised;

ADEQUATE AND EFFECTIVE CONTROL (PRINCIPLE 3.1-4.5)

o Principle 3.5

The Governing Body should ensure that the performance evaluations of the Governing Body, its structures, its Chair (Speaker) and members, the CEO(MM) and the company secretary or corporate governance professional (CS) result in continued improved performance and effectiveness.

LEGITIMACY (PRINCIPLE 4.1-4.5)

o Principle 4.1

The Governing Body should govern risk and opportunity in a way that supports the organisation in defining core purpose and to set and achieve strategic objectives

LEGITIMACY (PRINCIPLE 4.1-4.5)

o Principle 4.3

The governing body should govern compliance with laws and ensure consideration of adherence to non-binding rules, codes and standards

o Principle 4.4

The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the creation of value in a sustainable manner

LEGITIMACY (PRINCIPLE 4.1-4.5)

- **Principle 4.5**

The governing body should ensure that assurance results in an adequate and effective control environment and integrity of reports for better decision-making

TRUST, GOOD REPUTATION (PRINCIPLES 5.1 -5.2)

o Principle 5.1

As part of its decision-making in the best interests of the organisation, the governing body should ensure that a stakeholder-inclusive approach is adopted, which takes into account and balances their legitimate and reasonable needs, interests and expectations

TRUST, GOOD REPUTATION (PRINCIPLES 5.1 -5.2)

o Principle 5.2

The governing body of an institutional investor should ensure that the organisation responsibly exercises its rights, obligations, legitimate and reasonable needs, interests and expectations, as holder of beneficial interest in the securities of a company

CONCLUSION

- The principles of good governance if effectively promoted and upheld may assist the local government sector in finally reaching an ideal state of local government:
 - Ensuring sound financial management and sustainability.
 - Recruiting and developing suitable and qualified personnel

CONCLUSION

- Ensuring good planning, governance structures systems and processes that are biased to the needs of the communities
- Promoting good corporate culture in order to promote service delivery
- Creating a culture of high performance, accountability and responsiveness.

THANK YOU

