

King III – 23 & 24 September 2011

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King III – Apply or Explain





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

-Mervyn King

King III Code

- Code launched on 1 September 2009
- Replaces/ updated King II
- Implementation date is on 1 March 2010
- Practice notes have/ to be issued by the IoD
- Written from a Board perspective
- “Must” vs “Should” language
- Setting a standard for governance in South Africa



VERY APPLICABLE TO ALL SECTORS

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”

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's Counsel*

King III at a glance

Steering point

The King Committee on governance issued the King Report on Governance for South Africa – 2009 (the "Report") and the King Code of Governance Principles – 2009 (the "Code"), together referred to as "King III" on 1 September 2009.



The issuance of King III was necessitated by the new Companies Act of South Africa¹ and changes in international governance trends since the release of the second King Report on Corporate Governance for South Africa (King II) in 2002.

¹The Companies Act, 2008 (which constitutes the redraft of the Companies Act, 1973) was assented to and signed by the President on 8 April 2009. The Act will come into operation on a date which is yet to be fixed by the President.

In this Steering Point we focus on the key changes from King II. The next edition on King III will contain a King III disclosure checklist


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Corporate governance
Executive guide to King III In national, provincial and local government

King's Counsel*

Understanding and unlocking the benefits of sound corporate governance in government and the public sector

*connectedthinking

PRICEWATERHOUSECOOPERS 

King's Counsel*
King III – a municipal perspective - at a glance

Steering point

The King Committee on governance issued the King Report on Governance for South Africa – 2009 (the Report) and the King Code of Governance Principles – 2009 (the Code), together referred to as 'King III' on 1 September 2009.

While King II, issued in 2002, focused on the corporate sector, it is intended that King III be applied by all entities, including municipalities.

This paper aims to provide a high-level insight into how the principles incorporated in King III relate to municipalities, and also to provide reference to current legislation governing aspects of governance issues within municipalities.

The need to implement the key principles of good governance, as set out in King III, are not new in the local government arena.

The White Paper on Local Government, dated 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." It further states 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".

In addition, the eight Batho Pele principles, especially consultation, service standards and openness and transparency, emphasise the government's, and the public's, expectations from the public sector in general, and especially municipalities, in terms of service delivery and stakeholder engagement. These are key principles that are embodied in the spirit of King III.



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Local Government and King III
Public Sector Working Group Position Paper 2



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King III chapters

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, Communication and Technology (ICT)
Chapter 6	Compliance with Laws, Rules and Standards
Chapter 7	Internal Audit
Chapter 8	Governing Stakeholder Relationships
Chapter 9	Integrated Reporting and Disclosure

King III chapters

Chapter 1	Ethical Leadership and Corporate Citizenship <ul style="list-style-type: none">•Board composition•Ethics programme/ framework•Stakeholder inclusive strategies
Chapter 2	Boards and Directors <ul style="list-style-type: none">•Majority independent (non-executive) Directors•CEO and CFO – executive Directors•Board charter and terms of reference for each sub-committee•Disclosure of conflicts/ interests•Chairperson – independent, role defined, succession plan•Delegation of authority framework•CEO – role formalised, performance evaluated•Director nomination process and induction•Company Secretary•Board evaluations annually (disclose in integrated report)•Remuneration policy

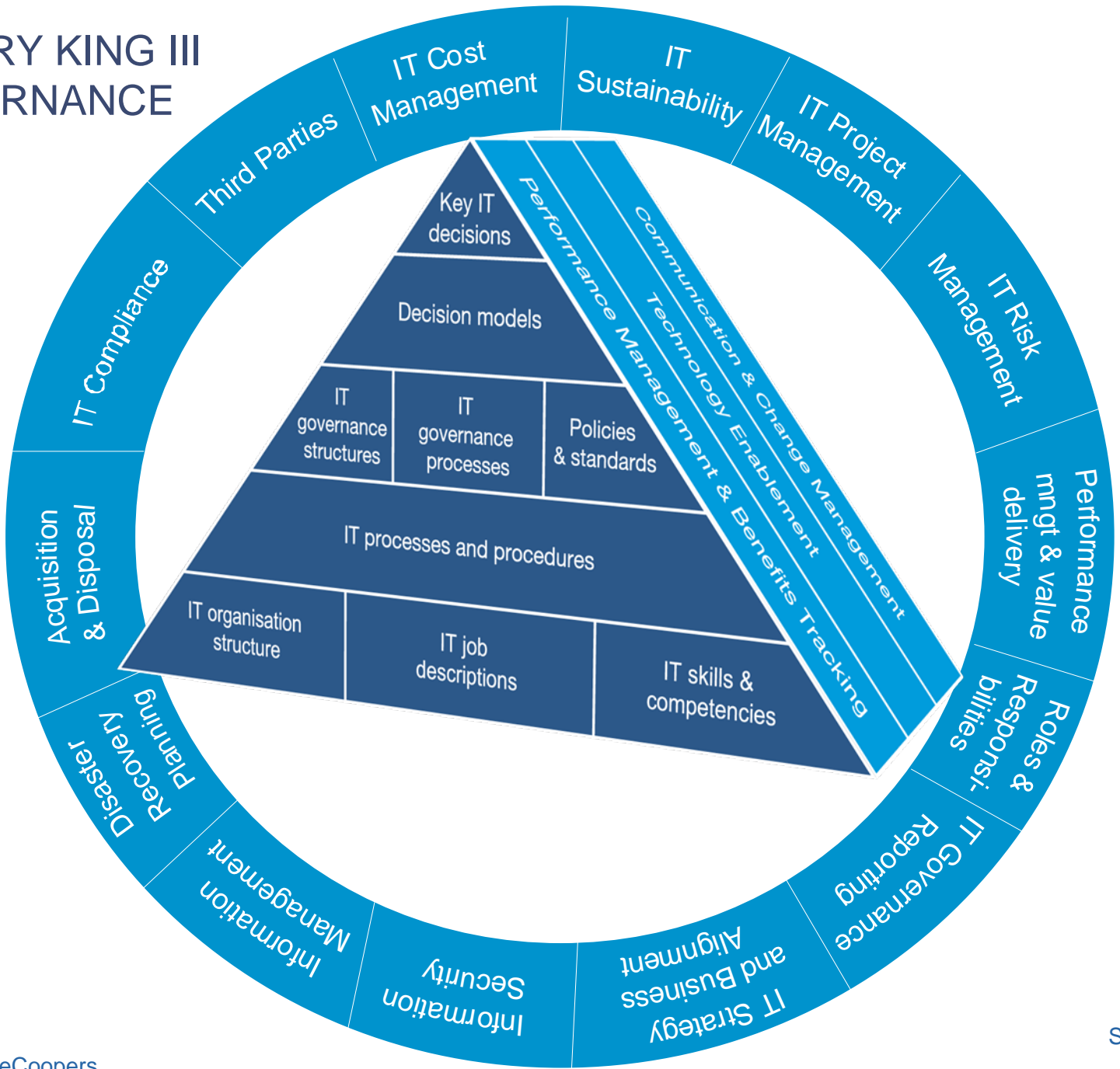
King III chapters

Chapter 3	Audit Committees <ul style="list-style-type: none">•Members = at least 3; independent non-executive Directors•Chairperson of the AC to be present at the AGM•Oversight over integrated reporting•Combined assurance model•Review finance function (expertise, resources, experience)•AC vs Risk Committee•Report to Board on IFC and Systems of Risk and Control
Chapter 4	The Governance of Risk <ul style="list-style-type: none">•Separate Risk Committee? CRO?•Formal risk assessment (at least annually)•Adopt a risk management framework (e.g. COSO)•Internal audit to provide a written assessment on the effectiveness of the system of internal controls and risk management to the Board (via the AC)

King III chapters

Chapter 5	The Governance of Information, Communication and Technology (ICT) <ul style="list-style-type: none">•IT to be on the Board agenda (IT is strategic)•IT governance and oversight•CIO or similar•IT internal control framework (e.g. Cobit)•Board assurance on effectiveness of IT (including outsourced)•Information Security Management System
Chapter 6	Compliance with Laws, Rules and Standards <ul style="list-style-type: none">•Board awareness and understanding on compliance•Compliance programme/ framework and assurance

SUMMARY KING III IT GOVERNANCE



King III chapters

Chapter 7	Internal Audit <ul style="list-style-type: none">•Written assessment on IFC and Risk Management/ Controls•Independent Quality Assurance Review•CAE to attend executive committee meetings
Chapter 8	Governing Stakeholder Relationships <ul style="list-style-type: none">•Identify important stakeholder groupings•Stakeholder policy/ framework•Communication guidelines
Chapter 9	Integrated Reporting and Disclosure <ul style="list-style-type: none">•Integrated report•Audit Committee oversight•Assurance over elements of non-financial/ sustainability information

Disclosure requirements

Integrated Report:

- Integrated financial and sustainability information of interest and concern to stakeholders.
- Forward-looking information that contextualizes financial results.
- Statement of application of King III, going concern.
- Disclosure regarding Directors.
- Statement by the board on Internal Controls.
- Statement by the board on Risk management as well as Internal Audit.
- Assurance on sustainability data.
- Managing stakeholder relations.
- Compliance statement as well as ethical performance.
- IT Reporting
- Commentary on financial results.

Integrated Reporting Committee (IRC) of South Africa: Framework for Integrated Reporting and the Integrated Report – Discussion Paper (25 January 2011)



FRAMEWORK FOR
INTEGRATED
REPORTING AND THE
INTEGRATED REPORT
DISCUSSION PAPER
25 JANUARY 2011

The Discussion Paper has been released by the Integrated Reporting Committee (IRC) of South Africa. The IRC invites public comment on the Discussion Paper.

Please email your comments to irccomments@saica.co.za

The last day for comment is 25 April 2011.

The Discussion Paper can be downloaded from www.sustainabilitysa.org

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Ethical leadership and corporate citizenship

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

Key Implications/ Questions

- Does the Board's composition support the principles of corporate citizenship, sustainability and stakeholder inclusivity?
- Time to relook the Ethics Programme of the organisation?

Board and Directors

- The **focal point** for and custodian of corporate governance
- Strategy, risk, performance and sustainability are **inseparable**
- Effective **ethical leadership** and a **responsible corporate citizen**
- **Ethics** are managed effectively
- The company has an effective and independent **audit committee**
- Responsible for the **governance of risk**
- Responsible for information, communication and technology (**ICT**) **governance**
- **Compliance** with laws, adherence to rules/ codes/ standards (even non-binding ones)
- An effective risk-based **internal audit**
- Ensure the integrity of the company's **integrated report** (incl. effectiveness of system of internal control)
- Commence **business rescue** proceedings as soon as the company is financially distressed
- **Chairman** of the board who is an **independent non executive director**. The CEO of the company should not be chairman of the board (**CEO delegation framework**) – always act in the company's best interest
- The board should comprise a balance of executives and non-executive directors, with a **majority of non-executive directors**
- Directors should be **appointed** through a **formal process**
- The **evaluation** of the board, its committees and the individual directors should be **performed annually**
- A governance framework should be agreed between the group and its subsidiary boards
- Companies should **remunerate** directors and executives **fairly and responsibly**

Boards and Directors

Key Implications/ Questions

- Do we have the right people to lead the organisation?
- Is the board sufficiently independent of management?
- Is the Board/ sub-committee structures effective?
- Do the Board and sub-committee Charters require revision?
- Are the Board/ sub-committees' performance properly evaluated?
- How do we incorporate strategy, risk, performance and sustainability into our decision-making philosophy?

Audit committees

- **Chaired** by an **independent non-executive director**
- The audit committee should **oversee integrated reporting**
- Audit committee should be satisfied on the expertise, resources and experience of the **finance function**
- Responsible for the oversight of **internal audit**
- An integral part of the **risk management process**
- Responsible for **recommending the external auditor** and overseeing the external audit process
- Report to the board and shareholders on how it has discharged its duties (including the **effectiveness of internal financial controls**)

Key Implications/ Questions

- Is the Audit Committee capacitated to discharge its responsibilities?
- Is the Audit Committee ensuring that a combined assurance model is in place?

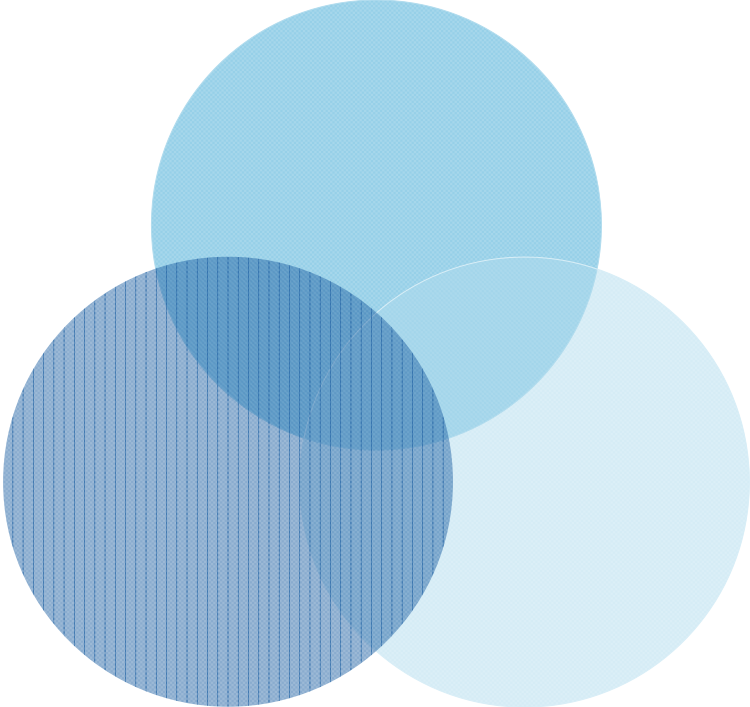
Skills required of audit committee

Audit committees collectively need to have understanding of:



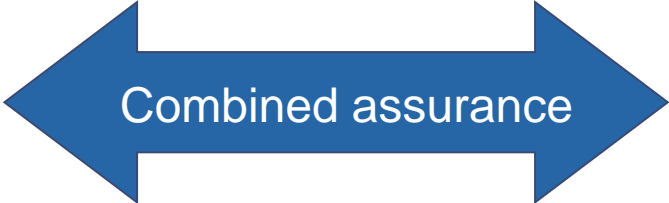
Overview

Management



Internal assurance providers

External assurance providers



Membership and resources

	King II	King III
Membership	Majority of members to be independent non-executive directors	All members independent non-executive directors
Minimum number of members	Not addressed	At least 3 members
Chairman of board	Not the chairman of the audit committee Preference for chairman of board not to be a member, may attend by invitation	Not a member or chairman of audit committee May attend by invitation

Integrated reporting

- Holistic and integrated presentation of company's finances and sustainability
- Financial results contextualised
- Reporting should be integrated across all areas of performance
- Audit Committee to recommend assurance on material sustainability/ non-financial issues



Sustainability reporting

- King II did not address:
 - Oversight; or
 - Assurance of sustainability reporting
- King III requirements for audit committee:
 - Review sustainability reporting for reliability and consistency with financial information
 - Recommend the need to engage an external assurance provider



Reporting on internal controls : King III – Board responsibilities

- Integrated report to include a statement from board of directors on the effectiveness of the company's system of internal controls
- Who will give this assurance?



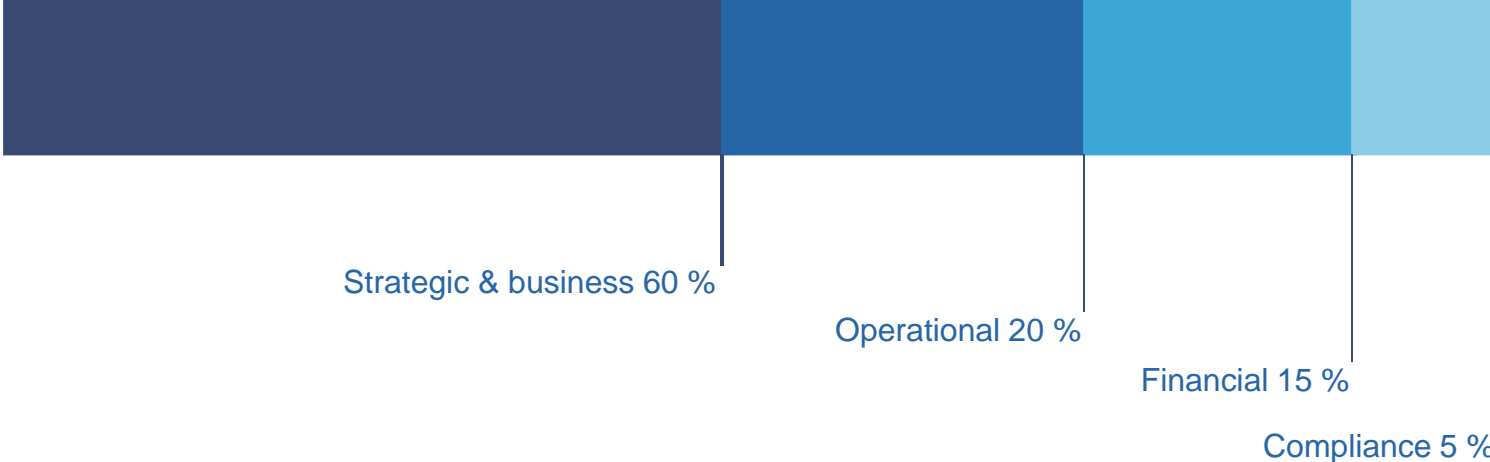
The governance of risk

- **Board responsible** for governance of risk
- Determine the levels of **risk tolerance**
- The **risk committee 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 (at least annually)
- **Framework and methodologies** are implemented to increase the profitability 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

Key Implications/ Questions

- How effective is the risk management plan? Are all types of risks considered, incl. fraud risk?

Strategic, operational, and business risks underlie 80 % of the rapid declines in shareholder value



“More CEOs intend to change their risk management process than any other element of their strategy or organisation”

The governance of information, communication and technology (ICT)

- **New chapter** (not in King II)
- **Board responsible** for ICT governance
- IT to be **aligned** with business/ sustainability objectives
- Management has the responsibility for the implementation of ICT (per **IT governance framework** e.g. Cobit)
- Monitor and evaluate all ICT **investments and expenditure**
- **Information assets** should be effectively managed (integral part of risk management)
- **Risk and audit committees** to assist the Board with IT risks

IT governance - highlights

- 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
- IT security should focus on **three key areas**:
 - Confidentiality
 - Integrity
 - Availability
 - COBIT may be used to check adequacy of the company's information security – no “one size fits all” solution

Implications/ questions for companies, boards of directors and audit committees

- The board should operate with IT governance in mind
- A thorough analysis on King III adherence of current IT operations
- IT should be on the board agenda (programme for implementation and what to explain to be signed of by the board)
- 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

Compliance with laws, rules and standards

- The company **complies** with applicable laws and should consider adherence to non-binding rules and standards
- Board and Directors to have a **working understanding** of applicable legislative framework
- Compliance should form an integral part of the **risk management process**
- Implement and effective **compliance framework** and processes

Key Implications/ Questions

- Where does compliance responsibility lie?
- Is the Board informed of compliance/ compliance exposure?
- Can our compliance efforts withstand scrutiny?

Internal Audit

- There is an **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
 - Adhere to the IIA Standards and Code of ethics
- Should follow a **risk based approach** to its plan
 - Informed by the strategy and risks of the company
 - Assess the company's risks and opportunities
- The **audit committee** should be responsible for the **oversight** of internal audit
 - Subjected to an **independent quality review**

Internal Audit - continues

- Provide a **written assessment of the effectiveness of the company's system of internal controls and risk management**
 - 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
 - Internal audit should provide a written assessment of internal controls and risk management to the board
 - Written assessment of internal financial controls to the audit committee
- Should be **strategically positioned** to achieve its objectives
 - The CAE should have standing invitation to attend executive committee meetings
 - Internal audit function should be appropriately resourced and have sufficient budget allocated to the function
 - Skilled and resourced as is appropriate for the complexity and volume of risk and assurance needs
 - The CAE should develop and maintain a quality assurance and improvement programme
 - Written assessment of internal financial controls made available to the audit committee

Implications/ questions 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
- Internal audit metrics must change to drive value adding
- CAE invited to attend company's executive committee

Governing stakeholder relationships

- Appreciate how **stakeholder's perceptions** affect a company's reputation
- Management to **proactively deal** with stakeholder relationships
- Strive to achieve the **appropriate balance** between its various stakeholders groupings in the best interests of the company
- **Equitable treatment** of shareholders
- **Transparent and effective communication** with stakeholders
- **Disputes** are resolved as effectively and **expeditiously** as possible

Governing stakeholder relationships

Key Implications/ Questions

- Do we have a stakeholder strategy and policies in place?
- Have we identified our material stakeholders (incl. the associated issues, risks and concerns)?
- How do we actually engage with all our stakeholders in practice?

Integrated reporting and disclosure

- **Integrity** of the company's integrated report
- **Sustainability** and disclosure should be integrated with the company's financial reporting
- Sustainability reporting and disclosure should **independently assured**
- **Why?** The market capitalisation of any company equals its economic value, not its book value
- **"Integrated report"** consists of
 - Annual financial statements; and
 - Integrated sustainability (economic, social and environmental) information



Integrated reporting - highlights

- 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
- Integrated report should contain a board statement on the effectiveness of the company's internal financial controls
- Board may delegate responsibility for, and review of the sustainability information to either the risk committee, sustainability committee or audit committee



Implications/ questions 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

Thank you

For more information – contact

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The practical application of
King III

Appendices

Detailed questions per Chapter



Ch 1. Key questions for management – Ethics and Leadership

- Corporate citizenship, sustainability and stakeholder inclusivity requires judgement, balance and compromise. Does the board have the right composition, skills and reliable data to make these types of judgement calls?
- Have we assessed the moral and economic imperatives of corporate citizenship? Have we taken this into account when reviewing our corporate strategy?
- Citizenship and sustainability risks may be obscure or indirect. How do we identify and manage these risks as well as opportunities?
- Do we have policies in place that will guide every level of the business in terms of expected behaviours and practices and with reference to our interaction with all material stakeholders?
- Do we measure the impact or lack thereof, of our corporate citizenship initiatives?

Ch 2. Key questions for management – Boards and Directors

- Do we have the right people in place to lead and manage all aspects of our business?
- Is the board sufficiently independent of management?
- Do we need to get external expert advice?
- Will we get greater value from board and committee evaluations if we employ an independent service provider?
- Are we comfortable that we have satisfied our overarching responsibilities adequately where we have delegated functions to sub committees?
- Are we spending our time efficiently in meetings and dealing only with material issues? Is there a need to revise our board and committee charters?
- In which committee should we deal with sustainability issues?
- Are the current roles and structures of our subsidiary boards adding value?
- How do we incorporate strategy, risk, performance and sustainability into our decision making philosophy?

Ch 3. Key questions for management – Audit Committees

- Does the audit committee have the appropriate blend of skills to discharge its responsibilities?
- What level of reliance may the audit committee place on the company's finance team?
- Will the committee need to recruit additional members in order to meet the new requirements for minimum numbers of non executive and independent directors?
- Does the committee have the necessary skills to oversee integrated reporting?
- How will the committee determine the most appropriate mix of internal auditors, external auditors and management to assess the application of the combined assurance model?

Ch 4. Key questions for management – Risk

- Do we understand how risk appetite and tolerance is applied in our organisation?
- How do we know that the biggest risk exposures to our organisation are being adequately managed?
- When last did we participate in a risk assessment activity?
- How often have we considered the same risk-related issue in the various management and governance meetings?
- Is ICT risk actively considered in our risk management process?
- Do we specifically consider compliance risk and, if so, how satisfied are we that it is effectively covered?
- Are risks prioritised and ranked to focus the responses and interventions on those risks outside the board's risk tolerance limits?
- Do we have an approved annual risk management plan?
- Who assures non financial risks, such as plant availability, staff capacity and competency, the impact of legislative changes on the business/organisation etc? And to which management or board committee is the assurance provided? Are we satisfied that this assurance is reliable?
- Do we have a fraud risk plan to consider our fraud exposure and prevention?
- Does our disclosure on the effectiveness of risk management reflect the actual position of our business/organisation?

Ch 5. Key questions for management – Information, Communication and Technology (ICT)

- Do we understand how IT decisions are taken and who is accountable?
- Do we have an IT Governance framework in place which defines and supports decision models, governance structures, accountability and governance processes?
- Is IT involved in strategic business decisions and planning?
- Is the investment in IT understood?
- Is our Intellectual Property, company and client information properly protected?
- How do we ensure compliance of IT against laws, rules, codes, standards and regulations?
- How is the value delivered by IT measured?
- Is the approach towards IT risks facing the organisation clear? I.e. risk-avoidance vs. risk-taking?
- Is the board regularly briefed on IT risks to which the enterprise is exposed?
- Is IT a regular item on the agenda of the board and is it addressed in a structured manner?
- Does the board have a clear view on the major IT investments from a risk and return perspective? Does the board obtain regular progress reports on major IT projects?
- Is the board getting independent assurance on the achievement of IT objectives and the containment of IT risks?

Ch 6. Key questions for management – Compliance

- What are the key statutory and regulatory obligations to which our organisation needs to comply?
- Are we in compliance with these requirements? If so, how have we received this assurance and are we satisfied that the assurance is credible?
- When last did we consider compliance at the board?
- Are we aware that many Acts, such as the National Credit Act, can impact our organisation even though we are not a financial institution?
- How are we apprised of changes in the legal and regulatory landscape?
- Do we have sufficient evidence to defend your organisation in court or to prove to a regulator that we have complied with a specific act?
- Does our disclosure on the effectiveness of compliance reflect the actual position in our business/organisation?

Ch 7. Key questions for management – Internal Audit

- Is internal audit aligned to strategy and does its plan focus on areas that are most likely to impact stakeholder value?
- Is internal audit effective and frequent enough in its communications with the audit committee and us?
- When last was an objective assessment as to whether internal audit has the appropriate level of technical and analytical skills required to address the industry risk and risk requirements of your business?
- Is our internal audit function poised to lead a combined assurance initiative? Is there sufficient assurance of our ethics and risk management programmes?
- Does internal audit utilise technology in its processes and use existing systems and data effectively in the performance of its work?
- What were our most recent loss events and what comfort did internal audit provide us with on these?
- How does our internal audit function compare against its peers in benchmark studies?
- Is our Chief Audit Executive subjected to a robust annual assessment based on key attributes relevant to our business?
- What is our true absorbed cost of internal audit?
- Is our internal audit agile enough to address emerging business issues?

Ch 8. Key questions for management – Stakeholder Relationships

- Do we have a stakeholder strategy and policies in place? If so, are they adequate or do they need revamping? If not, do we have the in-house knowledge to draft documents that will deliver value?
- Have we identified our **material stakeholders**?
- Do we know and understand the issues, risks and opportunities associated with our various stakeholders?
- Are our current forms of stakeholder communication effective?
- Do we have the necessary reliable information to make informed judgement calls when balancing the legitimate interests of various stakeholder groupings?
- How do we actually engage with all our stakeholders in practice?

Ch 9. Key questions for management – Integrated Reporting

- Does the company have a sustainability strategy and policy?
- Is sustainability considered part of ongoing business activities?
- Are sustainable development issues integrated into business management systems and departments such as risk, environmental, legal and financial?
- Have sustainability criteria been built into individual performance agreements?
- Do you have a suitably qualified director/s and executive/s with the responsibility for sustainable development?
- Does an integrated report mean one document?
- Who in the company is the custodian of the content and assurance of the integrated report?
- Do we have to follow the GRI G3 guidelines?

The practical application of King III

‘Exotics’

‘Boards and directors, acting in the best interests of the company, form the focal point of corporate governance’



Sustainability

Sustainability is listed second, only to effective leadership, as a **key aspect** of King III.

A **key challenge** for leadership is to mainstream sustainability issues : i.e. integrate strategy, sustainability and governance.



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 report to the board on effectiveness of internal financial controls annually
- 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

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

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

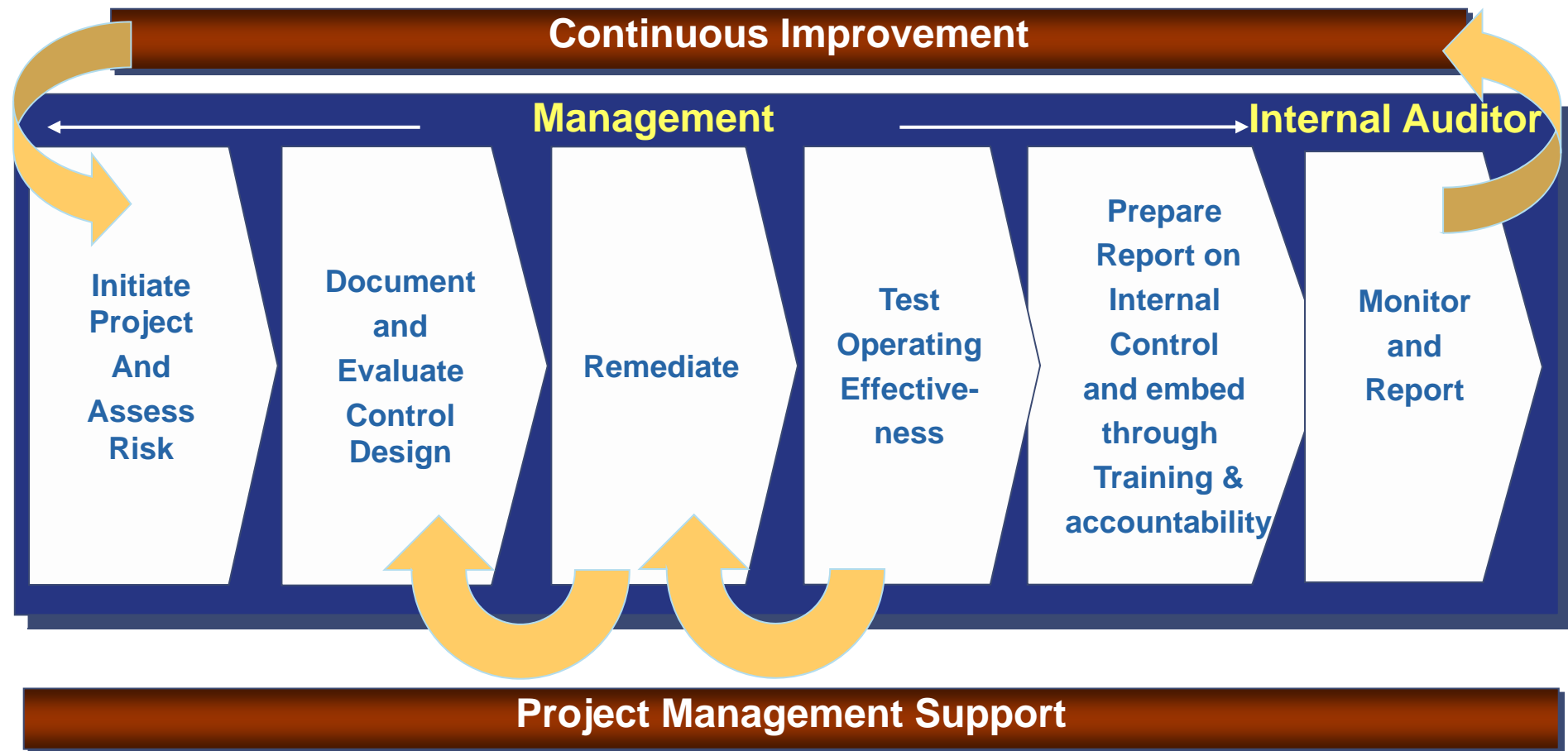
Setting the Scene

Observation on the Impact of Internal Financial Control

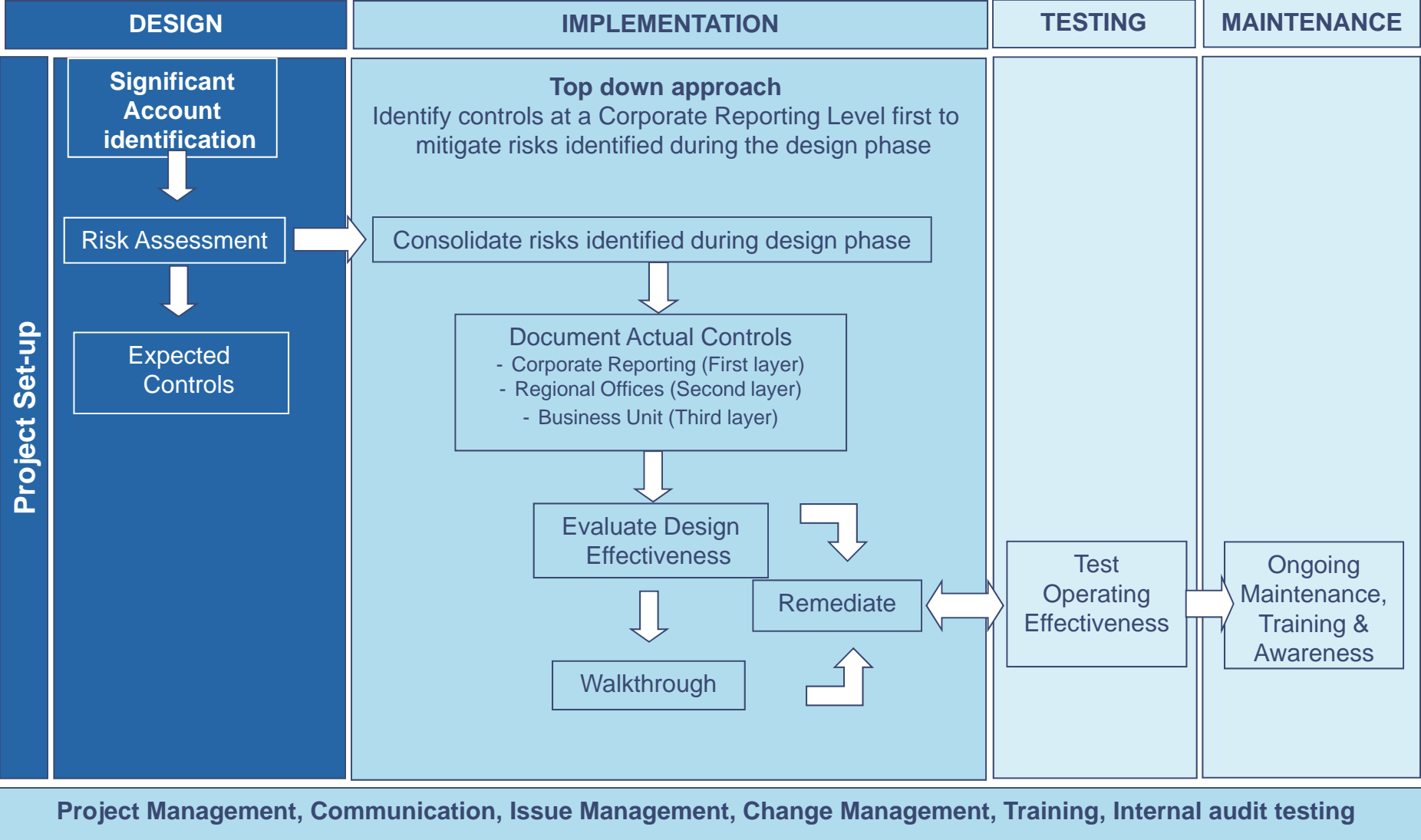
It is worth noting that Sarbanes-Oxley legislation established a new paradigm for corporate accountability. Responsibilities of the **audit committee**, CEO and CFO were clearly established at higher levels than in the past. It created a new standard for companies regarding the reporting of internal control effectiveness and has raised the bar for the design, documentation, and operation of internal financial control.

**Good internal control will ensure sustained
business development!**

Typical Internal Financial Control Project Approach



Approach



Cost Benefit Analysis

Benefits

- Increased executive management and audit committee confidence
- Enhanced control environment, awareness and discipline
- Improved Audit Committee oversight
- Increased knowledge of internal business processes
- Identification of improvement opportunities in both controls and processes
- Fewer control failure embarrassments
- Increased comfort for senior management
- Better quality audits (internal and external)
- Formalisation of processes and controls
- Increased awareness of internal controls at various levels within the business
- End to end process ownership and accountability

Thinking Ahead

Creating a Sustainable Process

This should not be seen as a one-time event

Efficient and effective processes must be developed to sustain board reporting

Management needs to design and sustain a process that

- Provides a solid base for management's quarterly and annual reporting
- Is seamlessly embedded with other business processes
- Achieve efficiency and effectiveness in documenting, updating and assessing company control documentation, as well as company policies
- Reduce administrative burden in assuring a sound internal control environment
- Enables management/internal audit to identify, report and remediate control deficiencies in a timely manner
- Proactively deals with change in people, processes and technology
- Eliminating redundant or inefficient processes that add little value to the company and its control environment

Key questions for management – Internal Financial Control

- Is there a control framework (e.g. COSO) governing financial reporting in the organisation?
- Have we identified and documented all probable risks to fair presentation in the financial statements and disclosures? (Fair presentation implies that the numbers and disclosures are not materially misstated).
- Are there controls in place to address these risks and are they adequately designed to prevent or detect material misstatements in the financial statements and disclosures?
- Do the controls identified operate as they are supposed to and are they appropriately evidenced?
- Have we examined or tested the controls identified above to ensure that our report to the audit committee is accurate and complete?
- Have we appropriately evidenced our assessment?
- Is a process in place to ensure that the framework remains relevant over time?

Combined assurance

What is combined assurance?

A coordinated approach to all assurance activities

to ensure that assurance provided by

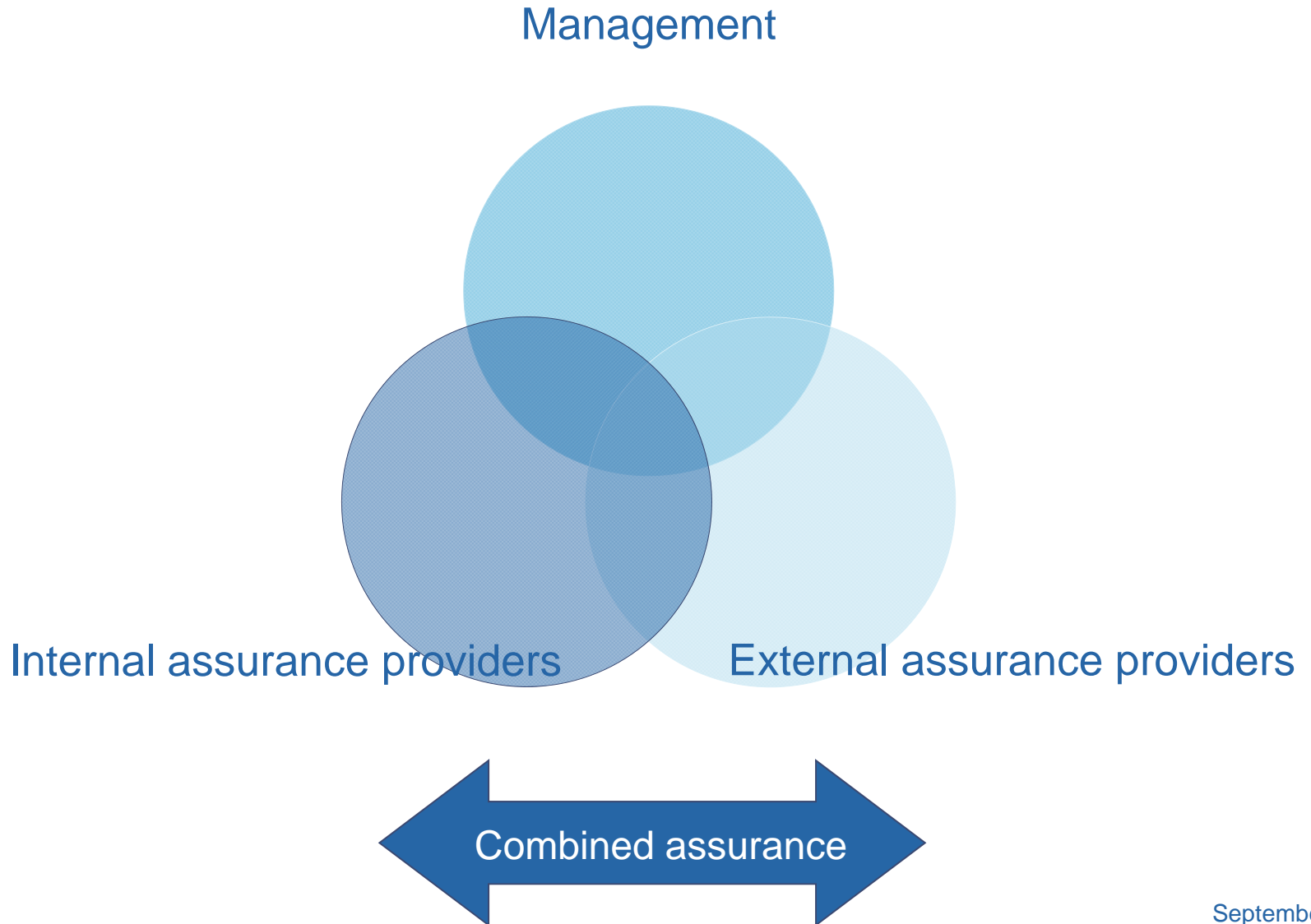
- management;
- internal assurance providers (such as internal audit); and
- external assurance providers (such as external audit or sustainability assurance providers)

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

“Integrating and aligning assurance processes in an organisation to maximise risk and governance oversight and control efficiencies, and optimise overall assurance to the Audit and Risk Committee, considering the organisation’s risk appetite”

Combined assurance (continued)

What is combined assurance?



Risk and Audit committees ask

- Where do we get our assurance from?
- Who is the custodian of assurance in the organisation?
- Who is ultimately confirming all is in order in the governance/risk space?
- Are we sure that our controls – financial and operational - are robust and our risk management mechanisms would highlight concerns?

Implications for audit committees

- Audit committees are able to assess significant risks facing the company with information to 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

Key questions for management – Alternate Dispute Resolution

- Is our organisation involved in significant disputes?
- What do these disputes teach us about our customers/suppliers and our own approach to business?
- Has negotiation failed in these disputes?
- Can we consider ADR processes? E.g. mediation, conciliation
- Is there potentially value to be added in changing the dispute mechanism from an enforcement of rights process to a “partnership” approach?
- Has the organisation considered adopting a dispute response plan?

Key questions for management – Business Rescue

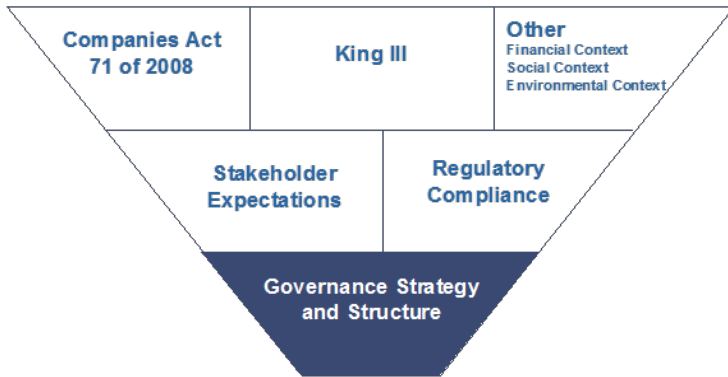
- Are there signs of a future potential need for business rescue and can they act sooner to avert this and seek assistance to turnaround the company?
- Is the company financially distressed?
- Are there reasonable prospects of rescuing the company?
- Is the company or its directors trading recklessly?
- Should we commence business rescue proceedings?
- Who should we appoint as the business rescue practitioner?
- Is this person independent and sufficiently experienced to rescue the business?
- What are the board's obligations to stakeholders, the courts and appointed representatives?
- Are we aware of and fulfilling our obligations as a board and individual directors in line with the requirements of the business rescue proceedings?

Corporate Governance Framework

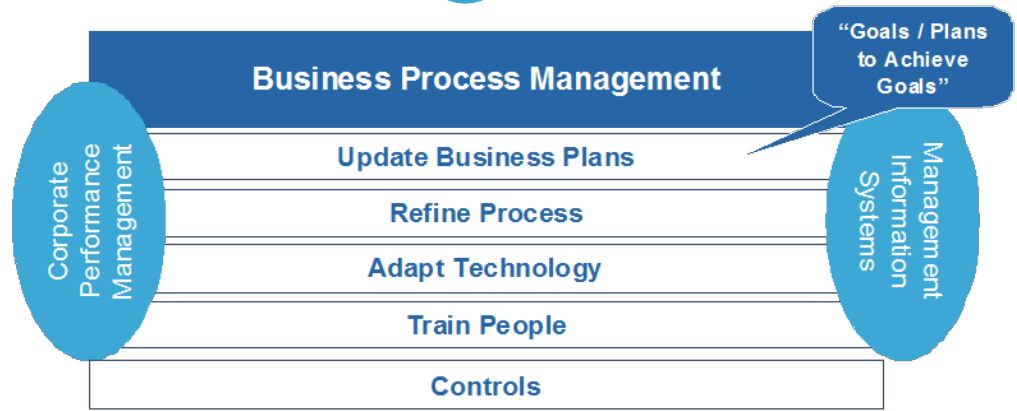


The Integrated Business Model

1



2



3

Integrated Reporting Framework

Financial

Governance

Internal & External Reports

4

Ensuring Reporting Integrity

External Audit (Financial & Non-Financial)

Internal Audit (Governance, Risk and Compliance)

Other Assurance (ISO certification, BEE Verification etc.)