Relevance & Attitude to King IV Code in the Public Sector—focus on ethical leadership and good governance.
The Meaning of Institutional Governance-

• Corporate governance is essentially about effective leadership characterised by ethical values of responsibility, accountability, fairness and transparency

• It regulates exercise of power within a public institution (municipality/entity) to ensure that institution’s strategic/operational objectives are achieved

• SA courts ruled that good institutional governance is ultimately about effective leadership
Ethical Leadership

• It is about leading by example (setting the tone from the top) and by motivating and encouraging staff to perform as best as they can

• Leading by example refers to honesty, integrity, fairness, transparency and the commitment to be accountable for one’s actions, and the willingness to root out fraud and corruption by all means necessary at any time

• Code of Conduct is therefore essential
Combined Assurance

Extensive assurance should be provided by the key role players

First level of assurance
Management/leadership
- Senior management: 17%
- Municipal manager: 31%
- Mayor: 50%

Second level of assurance
Internal independent assurance and oversight
- Internal audit: 15%
- Audit committee: 31%
- Treasury, LGTA, Premier’s office: 33%

Third level of assurance
External independent assurance and oversight
- Municipal council: 50%
- Municipal public accounts committee: 46%
- Legislature and portfolio committee: 17%

Provides assurance
- Provides some assurance
- Provides limited/no assurance
- Not established
King IV Application

- 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’
- Part 6 of the Draft King Code Supplement for municipalities is a must read.
So What Is New In King IV?

- King IV applies a principle-and-outcomes-based approach and moves away from a tick-box approach.
- The 75 King III principles have been consolidated into 16 principles.
- The focus in King IV is clearly on ensuring that the application of the principles achieves specifically identified outcomes, including ethical culture, good performance, effective control and/or legitimacy.
- Each principle is supported by a limited number of recommended practices and requires specific disclosures.
- In line with international developments, remuneration has received far greater prominence in King IV.
- In light of the prevalence of the Fourth Industrial Revolution, King IV has deliberately separated technology and information.
So What Is New In King IV? (Continued)

• King IV recommends the establishment of a Social and Ethics Committee (SEC) as a prescribed board committee. How many municipalities have a S & E Committee?

• King IV now specifically recognises the role responsibilities of stakeholders –

• King IV has a strong focus on opportunity management in addition to risk management. In addition it requires the Board to pay specific attention to opportunities in the process of strategic planning.

• King IV has acknowledged the need to assess and confirm the external auditor’s independence

• King IV suggests that the audit committee oversees auditor independence, considering the impact of non-audit services, audit firm tenure and audit partner rotation.
The Philosophy Behind King IV

The underlying theme of King III emphasised the Board’s responsibility for business sustainability. These principles are now well embedded and, as described above, King IV brings a renewed focus on ethical leadership and good governance.

The philosophy of King IV is focused on:
• Sustainable development
• Integrated thinking
• Corporate citizenship
• Stakeholder inclusivity
• Company’s role and responsibility in society

This philosophy is centred on three paradigm shifts in corporate governance:
• From financial capitalism to inclusive capitalism
• From short-term capital markets to long-term, sustainable capital markets
• From silo reporting to integrated reporting
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
Outputs Versus Outcomes Approach

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 Municipality makes its money
• Council/Board needs informed oversight
Governance Outcomes

• 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 as with its predecessors, is that of a set of voluntary principles and leading practices
• The application regime for King IV is “apply and explain”
Apply And Explain

• King IV requires an “Apply AND Explain” approach, as opposed to King III which is “Apply OR Explain”.

• This means that application of the principles is assumed, and that an explanation is disclosed on the practices that have been implemented and the progress made towards governance outcomes.

• Municipalities operate in a highly regulated environment and I believe the legislated framework provides a high degree of compliance with the King Code.
King IV Principles (1) Proof of Practice

• The following are the King IV key principles that will apply to all the metros and municipalities.


• Principle 2: The Council should govern the ethics of the municipality in a way that supports the establishment of an ethical culture./ (set the tone at the top) Municipal Systems Act 32 of 2000. Council should oversee Code of Conduct for Officials Schedule 2 –Council.

• Principle 3 : The Council should ensure that the municipality is and seen to be a responsible corporate citizen./ (set the tone at the top) Municipal Systems Act 32 of 2000 (MSA) Code of Conduct for Councillors Schedule 1. Council should set the example through own conduct.

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./MFMA Reports and Financial Statements including in Year Reporting. Chapter 12 of the MFMA.MSA Chapter 6 Performance Management.


• 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./ Local Government Municipal Structures ACT. 117 OF 1998- Chapter 3 Municipal Councils. Appointments are done through a Political Process however continuous councilor training train.

• 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./Municipal Systems Act 32 of 2000 section 59 Delegations –Municipal Systems Act 32 of 2000 -Chapter 3 -Municipal Functions and Powers. Chapter 4 -Internal Structures and Functionaries.
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. /Municipal Systems Act 32 of 2000- MSA Chapter 6 Performance Management.

• 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 duties. /Municipal Systems Act 32 of 2000- Chapter 7-Local Public Administration and Human Resources. Local Government: Municipal Systems Act: Regulations: Appointment and conditions of employment of senior managers. Municipal Systems Act 32 of 2000 section 59 Delegations –

• Principle 11: The Council should govern risk in a way that supports the municipality in setting and achieving its strategic objectives. /Municipal Finance Management Act 56 of 2003- section165 Internal Audit and 166 Audit Committees.


• Principle 13: The Council should govern compliance with applicable laws and adopted nonbinding rules, codes and standards in a way that supports the municipality being ethical and a good corporate citizen. /Municipal Finance Management Act 56 of 2003-section 165 IAU.
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. /Municipal Systems Act 32 of 2000-Chapter 4 Staff Matters. Municipal Finance Management Act 56 of 2003-section 167 Councilor’s Remuneration. Remuneration of Public Office Bearers Act 20 of 1998-determines the Remuneration of Councilors. under Government Gazette No. 37245 of 17 January 2014, empower the Minister to, annually by notice Section 72 of MSA and Regulation 35 of the Local Government: Regulations on Appointment and Conditions of Employment of SeniorManagers, issued in terms of Government Notice No. 21 as published e in the gazette to determine the total remuneration packages of senior managers according to different categories of municipalities(Upper Limits) Bargaining Council.

- 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./Municipal Finance Management Act 56 of 2003-section165 Internal Audit and 166 Audit Committees. Municipal Public Accounts Committee-National Treasury Circulars and Guidelines- Municipal Public Accounts Committees (MPAC) – Guide and Toolkit.

- 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./Municipal Systems Act 32 of 2000-Chapter 4 Community Participation. Municipal Finance Management Act 56 of 2003-Chapter 11 Goods and Services and Supply Chain Management Regulations and Municipal Policies.
Immediate Next Steps – Compliance Checklist

Risk Management Process

- Identify: what might go wrong?
- Assess: assessment of probability and impact?
- Plan: what can we do about it? what might we have to do?
- Mitigation/Back Planning: on-going risk management how do we stay on top of it?

Performing a King IV gap analysis
SOME QUESTIONS FOR PANEL DISCUSSIONS

• Should municipalities appoint a Social and Ethics Committee (SEC)?
• What is the attitude of Leadership (Politicians) and Management (MM and Directors) towards King IV?
• To what extent is King IV principles being applied in municipalities?
• Who champions the application of King IV in municipalities?
• To what extent can codes of corporate governance prevent corporate failure?
• Why has King IV not prevented the recent failures in both the public and private sectors?
• Why is tenure of members of the governing body so important, and what is the King IV approach in this regard?
• Can King IV improve the necessary levels of transparency and accountability?
GOVERNANCE RISK AND COMPLIANCE

Governance Documents

Risk Management  Governance  Compliance  Right 1st Time  Occupational Health and Safety

Ethics and Compliance System Quick Links

Code of Conduct  Conflict of Business Interest  Politically Exposed Person  Gift Declaration  Gifts Received Register  Gifts Offered Register

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CIGFARO
Chartered Institute of Government Finance, Audit & Risk Officers
Contact Details:
Daniel J de Lange
Executive Local Government
Cell phone 0825572064

Thank you for your attention

Reference: King IV and its impact on metros/municipalities VALLY
PADAYACHEE CD(SA); FINST; PR CPM; MBA; MSC(ENG); EDP (WITS) AMEU:
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Key Contacts

Colin Pillay
Chief Executive Officer: Revenext
+27 61 286 3894
Colin.Pillay@nextec.co.za

Danie J de Lange
Regional Director: Cape Region
+27 82 557 2064
daniel.delange@nextec.co.za

Ernest Rorich
SEC Head: Revenue Services
+27 84 580 2433
Ernest.Rorich@nextec.co.za

E-mail: moreinfo@NEXTEC.co.za
Web: www.NEXTEC.co.za

Purpose
We improve the lives of our people, customers and society.
We deliver innovative solutions with integrity and respect, creating value that enables sustainable growth.

Revenext, a business unit of NEXTEC Advisory provides specialised Revenue Enhancement and Management Services locally and internationally with a unique approach to cost containment and revenue protection.

Revenue Enhancement is the first step towards improving the smart city status of any municipality. Revenext understands this and with this in mind we offer workable revenue solutions with our diverse range of pragmatic and tailored revenue solutions.

Our trademark solution eROMSX is underpinned by industry leading technology and software that comprehensively addresses all aspects of the revenue value chain.
New technologies are disruptive. Organisations are forced to enhance asset and infrastructure, rethink strategies, build capabilities and increase revenue. In this way, they can improve their results.

Through disruption comes the opportunity to:
- Improve performance,
- Transform and streamline operations,
- Reduce costs, and
- Make more informed asset, portfolio and customer decisions

The uniqueness of the eROMSx solution:
- Modular nature allows for customisation according to client size and distinct needs and pressure points
- The experience of our industry thought leaders with unparalleled institutional knowledge
- Our best practice project delivery methodologies ensure that we stay ahead of the curb by future proofing our solution against market changes and institutional reforms