INSTITUTE OF DIRECTORS
SOUTHERN AFRICA

KING CODE OF GOVERNANCE FOR SOUTH AFRICA 2009

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INTRODUCTION AND BACKGROUND

1. The need for King III

The third report on corporate governance in South Africa became necessary because of the new Companies Act no. 71 of 2008 ('the Act') and changes in international governance trends. This Report, referred to as King III, was compiled by the King Committee with the help of the King subcommittees.

We have endeavoured, as with King I and King II, to be at the forefront of governance internationally. We believe this has been achieved because of the focus on the importance of conducting business reporting annually in an integrated manner i.e. putting the financial results in perspective by also reporting on:

- how a company has, both positively and negatively, impacted on the economic life of the community in which it operated during the year under review; and
- how the company intends to enhance those positive aspects and eradicate or ameliorate the negative aspects in the year ahead.

2. Composition of the King Committee for King III

On the advice of Sir Adrian Cadbury, the King Committee has been retained even though only three members of the committee, formed in 1992, remain on the present King Committee. In giving his advice, Sir Adrian Cadbury pointed out the evolutionary nature of corporate governance - various commissions were held in England under people other than Sir Adrian Cadbury after the Cadbury Report was issued. Following the Cadbury Report, the Greenbury, Hampel, Turnbull, Smith and Higgs Reports were issued. These were combined and the UK governance code is now known as the Combined Code. Following Sir Adrian's advice, the committee in South Africa continues to be known as the King Committee and the King Code has become an internationally recognised brand.

Eleven subcommittees were established for the King III process, namely:

- boards and directors;
- accounting and auditing;
- risk management;
- internal audit;
- integrated sustainability reporting;
- compliance and stakeholder relationships;
- business rescue;
- fundamental and affected transactions;
- IT governance;
- alternative dispute resolution; and
- editing.

Six researchers surveyed international best practices and helped to prepare the Practice Notes. The subcommittees consisted of 106 people. Lindie Engelbrecht, Chief Executive of the Institute of Directors of Southern Africa (IoD), acted as the convener of the chairmen of the subcommittees. Michael Katz checked all the legal aspects contained in the Report.
The names of the conveners and the members of the subcommittees are given in an attachment to this Report. Of the 123 people involved in this Report less than 20% are serving directors and the others are professionals and experts in the field of their committee.

As with King I and II, none of the members received remuneration or reimbursement of expenses. The only value driver for members was service in the best interest of corporate South Africa.

3. The governance compliance framework

Legislated basis for governance compliance

The governance of corporations can be on a statutory basis, or as a code of principles and practices, or a combination of the two. The United States of America has chosen to codify a significant part of its governance in an act of Congress known as the Sarbanes-Oxley Act (SOX). This statutory regime is known as 'comply or else'. In other words, there are legal sanctions for non-compliance.

There is an important argument against the 'comply or else' regime: a 'one size fits all' approach cannot logically be suitable because the types of business carried out by companies vary to such a large degree. The cost of compliance is burdensome, measured both in terms of time and direct cost. Further, the danger is that the board and management may become focused on compliance at the expense of enterprise. It is the duty of the board of a trading enterprise to undertake a measure of risk for reward and to try to improve the economic value of a company. If the board has a focus on compliance, the attention on its ultimate responsibility, namely performance, may be diluted.

The total cost to the American economy of complying with SOX is considered to amount to more than the total write-off of Enron, World Com and Tyco combined. Some argue that companies compliant with SOX are more highly valued and that perhaps another Enron debacle has been avoided. Prof Romano of Yale Law School said, *"SOX's corporate governance provisions were ill-conceived. Other nations, such as the members of the European Union who have been revising their corporation codes, would be well advised to avoid Congress' policy blunder."* Prof Ribstein of Illinois Law School said, *"It is unlikely that hasty, crash-induced regulation like SOX can be far sighted enough to protect against future problems, particularly in light of the debatable efficiency of SOX's response to current market problems. Even the best regulators might err and enact regulation that is so strong that it stifles innovation and entrepreneurial activity. And once set in motion, regulation is almost impossible to eliminate. In short, the first three years of SOX was, at best, an overreaction to Enron and related problems and, at worst, ineffective and unnecessary."*

Voluntary basis for governance compliance

The 56 countries in the Commonwealth, including South Africa and the 27 states in the EU including the United Kingdom, have opted for a code of principles and practices on a 'comply or explain' basis, in addition to certain governance issues that are legislated.

At the United Nations, the question whether the United Nations Governance Code should be 'comply or explain' or 'comply or else', was hotly debated. The representatives of several of the world bodies were opposed to the word 'comply', because it connoted that there had to be adherence and there was no room for flexibility.

Following King II, the Johannesburg Stock Exchange Limited (JSE) required listed companies to include in their annual report a narrative statement as to how they had complied with the principles set out in King II, providing explanations that followed practices recommended but have explained the practice adopted and have prospered. In these examples, the board ensured that acting in the best interests of the company was the overriding factor, subject always to proper consideration of the legitimate interests and expectations of all the company's stakeholders.

South African listed companies are regarded by foreign institutional investors as being among the best governed in the world's emerging economies and we must strive to maintain that high ranking. South Africa has benefited enormously from its listed companies following good governance principles and practices, as was evidenced by the significant capital inflows into South Africa before the global financial crisis of 2008.

For all these reasons, the King Committee continues to believe that there should be a code of principles and practices on a non-legislated basis.

Various approaches to voluntary basis for governance compliance

Internationally, the 'comply or explain' principle has also evolved into different approaches.

At the United Nations, for instance, it was ultimately agreed that the UN code should be on an 'adopt or explain' basis.

In the Netherland Code the 'apply or explain' approach was adopted. We believe that this language more appropriately conveys the intent of the King Code from inception rather than 'comply or explain'. The 'comply or explain' approach could denote a mindless response to the King Code and its recommendations whereas the 'apply or explain' regime shows an appreciation for the fact that it is often not a case of whether to comply or not, but rather to consider how the principles and recommendations can be applied.

King III, therefore, is on an 'apply or explain' basis and its practical execution should be addressed as follows:

It is the legal duty of directors to act in the best interests of the company. In following the 'apply or explain' approach, the board of directors, in its collective decision-making, could conclude that to follow a recommendation would not, in the particular circumstances, be in the best interests of the company. The board could decide to apply the recommendation differently or apply another practice and still achieve the objective of the overarching corporate governance principles of fairness, accountability, responsibility and transparency. Explaining how the principles and recommendations were applied, or if not applied, the reasons, results in compliance. In reality, the ultimate compliance officer is not the company's compliance officer or a bureaucrat ensuring compliance with statutory provisions, but the stakeholders.

4. The link between governance principles and law

There is always a link between good governance and compliance with law. Good governance is not something that exists separately from the law and it is entirely inappropriate to unhinge governance from the law.

The starting point of any analysis on this topic is the duty of directors and officers to discharge their legal duties. These duties are grouped into two categories, namely: the duty of care, skill and diligence, and the fiduciary duties.

As far as the body of legislation that applies to a company is concerned, corporate governance mainly involves the establishment of structures and processes, with appropriate checks and balances that enable directors to discharge their legal responsibilities, and oversee compliance with legislation.

In addition to compliance with legislation, the criteria of good governance, governance codes and guidelines will be relevant to determine what is regarded as an appropriate standard of conduct for directors. The more established certain governance practices become, the more likely a court would regard conduct that conforms with these practices as meeting the required standard of care. Corporate governance practices, codes and guidelines therefore lift the bar of what are regarded as appropriate standards of conduct. Consequently, any failure to meet a recognised standard of governance, albeit not legislated, may render a board or individual director liable at law.

Around the world hybrid systems are developing. In other words, some of the principles of good governance are being legislated in addition to a voluntary code of good governance practice. In an 'apply or explain' approach, principles override specific recommended practices. However, some principles and recommended practices have been legislated and there must be compliance with the letter of the law. This does not leave room for interpretation. Also, what was contained in the common law is being restated in statutes. In this regard, perhaps the most important change is incorporation of the common law duties of directors in the Act. This is an international trend.

As a consequence, in King III, we point to those matters that were recommendations in King II, but are now matters of law because they are contained in the Act.

Besides the Act, there are other statutory provisions which create duties on directors and we draw some of these statutes to the attention of directors. The Act legislates in respect of state-owned companies as defined in the Public Finance Management Act (PFMA) (which includes both national government business enterprises and national public entities). These state-owned companies are described as 'SOC Limited'. Private companies (which have Pty Ltd at the end of the company name) are companies that have memoranda of incorporation prohibiting the offer of shares to the public and restricting the transferability of their shares. Personal liability companies (which have Inc at the end of the company name) provide that directors and past directors are jointly and severally liable for the contractual debts of the company. A public company (which has Ltd at the end of the company name) means a profit company that is not a state-owned company, private company or personal liability company. A non-profit company carries the naming convention 'NPC'.

A person who holds a beneficial interest in the shares issued by a company has certain rights to company information under the Act and under the Promotion of Access to Information Act.

All companies must prepare annual financial statements, but there are limited exceptions from the statutory requirement for an external audit of these annual financial statements.

A company is generally permitted to provide financial assistance for the purchase or subscription of its shares and to make loans to directors, subject to certain conditions such as solvency and liquidity. The Act describes the standards of directors' duties by reference to the common law principles. A new statutory defence has been introduced for the benefit of directors who have allegedly breached their duty of care. This defence will be availed of by a director who asserts that he had no financial conflict, was reasonably informed, and made a rational business decision in the circumstances.

Provisions exist for relieving directors of liability in certain circumstances, either by the courts or, if permitted, by the company's memorandum of incorporation, but not in the case of gross negligence, willful misconduct or breach of trust.

Every public company and state-owned company must have a company secretary, who has specific duties set out in the Act. The company secretary is dealt with in Chapter 2 Principle 2.21.

The designated auditor may not hold office as such for more than five consecutive years and, in general terms, cannot perform any services that would be implicated in the conduct of the external audit or determined by the audit committee.

Every public company and state-owned company must appoint an audit committee, the duties of which are described in the Act and repeated in Chapter 3 Principles 3.4 to 3.10.

We have distinguished between statutory provisions and voluntary principles, and recommended practices. We have made it clear that it is the board's duty, if it believes it to be in the best interests of the company, to override a recommended practice. However, the board must then explain why the chosen practice was applied and give the reasons for not applying the recommended practice.

The ultimate compliance officer is the company's stakeholders who will let the board know by their continued support of the company if they accept the departure from a recommended practice and the reasons furnished for doing so.

5. Corporate governance and the financial crisis

The credit crunch, and the resulting crisis among leading financial institutions, is increasingly presented as a crisis of corporate governance. However, although current problems are to an extent indicative of shortcomings in the global financial architecture, they should not be interpreted as reflecting dysfunction in the broader South African and UK corporate governance models where values-based principles are followed and governance is applied, not only in form but also in substance.

Consequently, it is essential that South African policymakers focus their response to the crisis on the underlying sources of the problem, including any defects in the financial regulatory framework (both in SA and globally). Populist calls for more general legislative corporate governance reform must be treated with the appropriate caution.

Critics of South Africa's light regulatory touch often suggest that emulation of the more 'robust' US approach would improve corporate governance standards, and thereby reduce the risk of systemic economic crises in the future. However, it is worth remembering that the US is the primary source of the current financial crisis. SOX – with all of its statutory requirements for rigorous internal controls – has not prevented the collapse of many of the leading names in US banking and finance.

6. The new constitution of commerce

An analysis of the registers of shareholders of the major companies listed on the JSE will show that they are mostly comprised of financial institutions, both foreign and local. These institutions are 'trustees' for the ultimate beneficiaries, who are individuals. The ultimate beneficiaries of pension funds, which are currently among the largest holders of equities in South Africa, are individuals who have become the new owners of capital. This is a departure from the share capital being held by a few wealthy families, which was the norm until the end of the first half of the 20th century. This is a worldwide trend.

The company is integral to society, particularly as a creator of wealth and employment. In the world today, companies have the greatest pools of human and monetary capital. These are applied enterprisingly in the expectation of a return greater than a risk-free investment.

Surveys have shown that while the first priority of stakeholders of a company is the quality of the company's products or services, the second priority is the trust and confidence that the stakeholders have in the company.

Although the board is accountable to the company itself, the board should not ignore the legitimate interests and expectations of its stakeholders. In the board's decision-making process, the inclusive approach to governance adopted in King II dictates that the board should take account of the legitimate interests and expectations of the company's stakeholders in making decisions in the best interests of the company.

7. Institutional investors

An 'apply or explain' market-based code of good practice in the context of listed companies, such as King III, is stronger if its implementation is overseen by those with a vested interest in the market working, i.e. the institutional investor. Recent experience indicates that market failures in relation to governance are, at least in part, due to an absence of active institutional investors.

Institutional investors should be encouraged to vote and engage with companies, or require their agents through mandates to vote and engage. This will ensure that governance best practice principles are more consistently applied.

The King III report was written from the perspective of the board as the focal point of corporate governance. However, the King Committee believes that a code should be drafted to specifically set out the expectations on institutional investors in ensuring companies apply the principles and recommended practices effectively. The code should encourage action that ensures all role players in the investment chain become aware of their duties. Even though more than 20 asset managers and owners have signed the Principles for Responsible Investment (PRI), few are voting and disclosing their votes. Institutional investors should at the very least follow the guidelines laid down by the International Corporate Governance Network (ICGN).

The King Committee also agrees with the suggestion of the Organisation for Economic Cooperation and Development (OECD) that shareholders should be allowed to consult with each other on issues concerning basic shareholder rights. This is subject to exceptions to prevent abuse such as in amalgamations, schemes of arrangement, takeovers, mergers and the disposal of the greater part of the assets of a company.

8. Key aspects of this Report

The philosophy of the Report revolves around leadership, sustainability and corporate citizenship. To facilitate an understanding of the thought process, debate and changes in the Report, the following key aspects are highlighted:

1. Good governance is essentially about effective *leadership*. Leaders should rise to the challenges of modern governance. Such leadership is characterised by the ethical values of responsibility, accountability, fairness and transparency and based on moral duties that find expression in the concept of Ubuntu. Responsible leaders direct company strategies and operations with a view to achieving sustainable economic, social and environmental performance.

2. *Sustainability* is the primary moral and economic imperative of the 21st century. It is one of the most important sources of both opportunities and risks for businesses. Nature, society, and business are interconnected in complex ways that should be understood by decision-makers. Most importantly, current incremental changes towards sustainability are not sufficient – we need a fundamental shift in the way companies and directors act and organise themselves.

3. The concept of *corporate citizenship* which flows from the fact that the company is a person and should operate in a sustainable manner. Sustainability considerations are rooted in the South African Constitution which is the basic social contract that South Africans have entered into. The Constitution imposes responsibilities upon individuals and juristic persons for the realisation of the most fundamental rights.

9. Sustainability

International developments

Sustainability issues have gained in importance internationally since the publication of King II. The United Nations has published the Global Compact and the Principles for Responsible Investment. There have also been the European Union Green Paper for Corporate Social Responsibility (CSR) and the OECD Guidelines for Multinational Companies.

The Swedish government has laid down that its state-owned enterprises must have sustainability reports following the Global Reporting Initiative's (GRI) G3 guidelines.

In the United Kingdom, the CSR relevant part of the Companies Act came into operation in October 2007. It requires that directors consider in their decision-making, the impacts of the company's operations on the community and the environment. As has been pointed out in 'The Reform of United Kingdom Company Law', the intention of corporate law reform in this area was to:

- encourage companies to take an appropriate long-term perspective;
- develop productive relationships with employees and those in the supply chain; and
- to take seriously their ethical, social and environmental responsibilities.

In Germany, in terms of the German Commercial Code, management reports must include non-financial performance indicators and companies should demonstrate that their decisions have taken CSR into account in an effective way.

In January 2009, the Norwegian government launched a national White Paper on CSR. The Paper deals with the responsibility of companies in Norway to report on sustainability performance. The Paper explains how the GRI G3 guidelines can be used to fulfil the company's responsibilities to make transparent disclosure about sustainability issues.

In December 2008, the Danish parliament passed a law on CSR reporting for its companies, mandating that companies disclose their CSR activities or give reasons for not having any, following the principle of 'comply or explain'. Denmark encourages the use of accepted tools such as the GRI G3 guidelines and the UN Global Compact Communication on Progress. A recent survey shows that over 80% of the global Fortune companies now have sustainability performance reports.

Recently, President Obama of the United States stated that sustainability issues would be central to the policies of his administration.

Local developments

Locally, the topic has also burgeoned. The JSE launched the SRI index in 2004 as a tool for investors to identify companies incorporating sustainability practices into their business activities. More recently, the Department of Environmental

Affairs and Tourism of South Africa carried out a long-term mitigation scenario about climate change. Plans were put in place, in the third quarter of 2008, to fast-track the process of translating strategic options into policy directions. The then Minister, Martinus van Schalkwyk, said that he would eventually develop a legislative, regulatory and fiscal package to give effect to South Africa's long-term climate policy. He added that if South Africa continued with business as usual, greenhouse gas emissions would quadruple by 2050 and, in the process, South Africa would become an international pariah. He pointed out that South Africa's actions, in reducing electricity demand, were in line with the Department of Environmental Affairs and Tourism's long-term mitigation scenario and have already had a positive impact on the country's footprint. South Africa plans to have a full climate-change plan in place in 2009.

An incentive for investments by energy-efficient equipment companies will be introduced in South Africa in the form of a supplementary depreciation allowance. Existing excise duties on motor vehicles will be adjusted to take into account carbon emissions.

Integration of social, environmental and economic issues

The proliferation of initiatives, tools and guidelines on sustainability is evidence of the growing awareness of sustainability issues. Because the company is so integral to society, it is considered as much a citizen of a country as is a natural person who has citizenship. It is expected that the company will be and will be seen to be a responsible citizen. This involves social, environmental and economic issues – the triple context in which companies in fact operate. Boards should no longer make decisions based only on the needs of the present because this may compromise the ability of future generations to meet their own needs.

'The success of companies in the 21st century is bound up with three interdependent sub-systems – the natural environment, the social and political system and the global economy. Global companies play a role in all three and they need all three to flourish.' This is according to Tomorrow's Company, UK. In short, planet, people and profit are inextricably intertwined.

A key challenge for leadership is to make sustainability issues mainstream. Strategy, risk, performance and sustainability have become inseparable; hence the phrase 'integrated reporting' which is used throughout this Report.

The achievement of best practice in sustainability and integrated reporting is only possible if the leadership of a company embraces the notion of integrated sustainability performance and reporting. There are some examples of visionary leadership in this area. Tomorrow's Company for example, recognises that tomorrow's global company should *'expand its view of success and redefine it in terms of lasting positive impacts for business, society and the environment'.*

Sustainability is, however, about more than just reporting on sustainability. It is vital that companies focus on integrated performance. The board's role is to set the tone at the top so that the company can achieve this integrated performance.

Sustainability also means that management pay schemes must not create incentives to maximise relatively short-term results at the expense of longer-term performance.

Inclusive stakeholder approach

This Report seeks to emphasise the inclusive approach of governance.

It is recognised that in what is referred to as the 'enlightened shareholder' model as well as the 'stakeholder inclusive' model of corporate governance, the board of directors should also consider the legitimate interests and expectations of stakeholders other than shareholders. The way in which the legitimate interests and expectations of stakeholders are being treated in the two approaches is, however, very different. In the 'enlightened shareholder' approach the legitimate interests and expectations of stakeholders only have an instrumental value. Stakeholders are only considered in as far as it would be in the interests of shareholders to do so. In the case of the 'stakeholder inclusive' approach, the board of directors considers the legitimate interests and expectations of stakeholders on the basis that this is in the best interests of the company, and not merely as an instrument to serve the interests of the shareholder.

What this means in practice is that in the 'stakeholder inclusive' model, the legitimate interests and expectations of stakeholders are considered when deciding in the best interests of the company. The integration and trade-offs between various stakeholders are then made on a case-by-case basis, to serve the best interests of the company. The shareholder, on the premise of this approach, does not have a predetermined place of precedence over other stakeholders. However, the interests of the shareholder or any other stakeholder may be afforded precedence based on what is believed to serve the best interests of the company at that point. The best interests of the company should be interpreted within the parameters of the company as a sustainable enterprise and the company as a responsible corporate citizen. This approach gives effect to the notion of redefining success in terms of lasting positive effects for all stakeholders, as explained above.

Integrated reporting

The market capitalisation of any company listed on the JSE equals its economic value and not its book value. The financial report of a company, as seen in its balance sheet and profit and loss statement, is a photograph of a moment in time of its financial position. In buying a share on any stock exchange, the purchaser makes an assessment of the economic value of a company. The assessment considers the value of matters not accounted for, such as future earnings, brand, goodwill, the quality of its board and management, reputation, strategy and other sustainability aspects. The informed investor assesses the quality of the company's risk management and whether it has considered the sustainability issues pertinent to its business.

Individuals today are the indirect providers of capital. They are consumers and, as citizens, they are concerned about the sustainability of our planet. Those who prepare integrated reports should give the readers the forward-looking information they want. Today's stakeholders also want assurance on the quality of this forward looking information.

By issuing integrated reports, a company increases the trust and confidence of its stakeholders and the legitimacy of its operations. It can increase the company's business opportunities and improve its risk management. By issuing an integrated report internally, a company evaluates its ethics, fundamental values, and governance, and externally improves the trust and confidence which stakeholders have in it.

In King III, we have therefore recommended integrated sustainability performance and integrated reporting to enable stakeholders to make a more informed assessment of the economic value of a company.

The integrated report, which is used throughout the Report and is explained in Chapter 9, should have sufficient information to record how the company has both positively and negatively impacted on the economic life of the community in which it operated during the year under review, often categorised as environmental, social and governance issues (ESG). Further, it should report how the board believes that in the coming year it can improve the positive aspects and eradicate or ameliorate the negative aspects, in the coming year.

In summary

- *Inclusivity* of stakeholders is essential to achieving sustainability and the legitimate interests and expectations of stakeholders must be taken into account in decision-making and strategy.

- *Innovation, fairness, and collaboration* are key aspects of any transition to sustainability – innovation provides new ways of doing things, including profitable responses to sustainability; fairness is vital because social injustice is unsustainable; and collaboration is often a prerequisite for large scale change. Collaboration should not, however, amount to anti-competitiveness.

- *Social transformation* and redress from apartheid are important and should be integrated within the broader transition to sustainability. Integrating sustainability and social transformation in a strategic and coherent manner will give rise to greater opportunities, efficiencies, and benefits, for both the company and society.

- King II explicitly required companies to implement the practice of *sustainability reporting* as a core aspect of corporate governance. Since 2002, sustainability reporting has become a widely accepted practice and South Africa is an emerging market leader in the field (partially due to King II and the emergence of initiatives such as the JSE's Socially Responsible Investment (SRI) index which was the first of its kind in an emerging market). King III supports the notion of sustainability reporting, but makes the case that whereas in the past it was done in addition to financial reporting it now should be integrated with financial reporting.

10. Emerging governance trends incorporated in the report

Alternative dispute resolution (ADR)

Electronic communication has expedited the process of concluding contracts and doing business generally. The world is flat and borderless as far as capital flows are concerned. Capital can easily flow with the click of a mouse to where there is good governance. International bodies such as the International Finance Corporation have started to recognise that alternative dispute resolution (ADR) clauses are needed in contracts. Mediation is being used, not only as a dispute resolution mechanism, but as a management tool.

For example, in the building of a bridge, a mediation expert is called in when the contracts are being finalised because the expert will know that the formulation of a clause in a certain way could lead to disputes or, conversely, avoid disputes. Further, as disputes arise, the mediator is called in to help the parties to resolve them. The disputants can arrive at novel solutions quickly, efficiently and effectively with a saving in costs. There is an identity of interest to complete the bridge in good time, for example, to earn bonuses. If it is not, there may well be penalties.

It is accepted around the world that ADR is not a reflection on a judicial system of any country, but that it has become an important element of good governance. Directors should preserve business relationships. Consequently, when a dispute arises, in exercising their duty of care, they should endeavour to resolve it expeditiously, efficiently and effectively. Also, mediation enables novel solutions, which a court may not achieve, as it is constrained to enforce legal rights and obligations. In mediation, the parties' needs are considered, rather than their rights and obligations. It is in this context that the Institute of Directors in Southern Africa (IoD) advocates administered mediation and, if it fails, expedited arbitration. Together with the Arbitration Foundation of Southern Africa, the IoD has developed an enforceable ADR clause for inclusion in contracts, the precedent of which is to be found in the Practice Notes to the report. The King Committee endorses the approach by the IoD. In Chapter 8 Principle 8.6 ADR, is dealt with in more detail.

ADR is also in line with the principles of Ubuntu.

Risk-based internal audit

Risk involves issues over the whole spectrum of conducting business and enterprise. Strategy in itself involves risk because one is dealing with future events. King II and other such codes require directors to enquire and then, if satisfied, confirm in the annual report the adequacy of internal controls in a company.

A compliance-based approach to internal audit adds little value to the governance of a company as it merely assesses compliance with existing procedures and processes without an evaluation of whether or not the procedure or process is an adequate control. A risk-based approach is more effective as it allows internal audit to determine whether controls are effective in managing the risks which arise from the strategic direction that a company, through its board, has decided to adopt.

Internal audit should be risk-based and every year the internal auditors should furnish an assessment to the board generally on the system of internal controls and to the audit committee specifically on the effectiveness of internal financial controls. The audit committee must report fully to the board on its conclusions arising from the internal audit assessment. This will give substance to the endorsement by directors of the effectiveness of internal controls in a company in the integrated report. Internal audit forms part of the combined assurance model introduced in Chapter 3 Principle 3.5 of this Report. Internal audit is discussed in Chapter 7.

Shareholders and remuneration

We have dealt in the Report with the trend for the board to put the company's policy of remuneration to a non-binding advisory vote of shareholders in general meeting. Within the remuneration policy the board will state the principles for fixing individual remuneration for senior management. Non-executive directors' remuneration will be fixed for the year and must be approved by special resolution by shareholders in a general meeting. Refer to Chapter 2 Principle 2.25.

Evaluation of board and director performance

The evaluation of boards, board committees and individual directors, including the chairman, is now entrenched internationally. The Report deals with evaluations in Chapter 2 Principle 2.22.

11. New issues in the report

Information technology governance

Information systems were used as enablers to business, but have now become pervasive in the sense that they are built into the strategy of the business. The pervasiveness of IT in business today mandates the governance of IT as a corporate imperative.

In most companies, IT has become an integral part of the business and is fundamental to support, sustain and grow the business. Not only is IT an operational enabler for a company, it is an important strategic asset to create opportunities and to gain competitive advantage. Companies have made, and continue to make a significant investment in IT. Virtually all components, aspects and processes of a company include some form of automation. This has resulted in companies relying enormously on IT systems. Further, the emergence and evolution of the internet, ecommerce, on-line trading and electronic communication have also enabled companies to conduct business electronically and perform transactions instantly. These developments bring about significant risks and should be well governed and controlled.

We, therefore, deal with IT governance in detail in King III for the first time. The IT governance chapter (Chapter 5) is focused on providing the most salient aspects of IT governance for directors. Due to the broad and ever-evolving nature of the discipline of IT governance, the chapter does not try to be the definitive text on this subject but rather to create a greater degree of awareness at director level.

There is no doubt that the complexity of IT systems does create operational risks and when one outsources IT services, for instance, this has the potential to increase risk because confidential information is outside the company. Consideration has to be given to the integrity and availability of the functioning of the system; possession of the system; authenticity of system information; and assurance that the system is usable and useful. Concerns include unauthorized use, access, disclosure, disruption or changes to the information system.

In exercising their duty of care, directors should ensure that prudent and reasonable steps have been taken in regard to IT governance. To address this by legislation alone is not the answer. International guidelines have been developed through organisations such as ITGI and ISACA (COBIT and Val IT), the ISO authorities (eg: ISO 38500) and various other organisations such as OCEG. These may be used as a framework or audit for the adequacy of the company's information governance for instance, but it is not possible to have 'one size fits all'. However, companies should keep abreast of the rapidly expanding regulatory requirements pertaining to information.

Business rescue

South Africa has been unique in not having had adequate business rescue legislation. This is now addressed in the Act. Clearly, the ability to rescue economically viable companies experiencing financial difficulties is in the best interests of shareholders, creditors, employees and other stakeholders as well as in the interests of the country as a whole because of the high costs to the economy if businesses fail.

Business rescue legislation needs to balance the rights of stakeholders without facilitating abuse. The business community has long suggested that there should be business rescue provisions, but for all types of entities and not only companies. Directors should be aware of the practicalities of business rescue. Business rescue is addressed in this Report in Chapter 2 Principle 2.15 and in the Practice Notes.

Fundamental and affected transactions

We did not concern ourselves with fundamental and affected transactions in King I or King II. However, because of the changes in the Act, we have included in the Practice Notes a section on fundamental and affected transactions to ensure that directors are aware of their responsibilities and duties for mergers, acquisitions and amalgamations.

Also, the existence of an active take-over industry promotes good governance and is more likely to ensure good managerial performance and discipline.

12. Language, gender and terminology

Although the terms ‘company’, ‘boards’ and ‘directors’ are used, King III refers and applies to the functional responsibility of those charged with governance in any entity even if different terminology is used in other entities, sectors and industries.

When the Report refers to ‘he’ or ‘his’ in this report we include ‘she’ or ‘her’. Likewise, when we refer to ‘chairman’, we include ‘chairwoman’, ‘chairperson’ and ‘chair’. The use of the term ‘corporate’ (e.g. corporate governance, corporate citizenship, corporate ethics etc.) applies to all entities.

As certain aspects of governance are legislated in the Act and the PFMA, the use of instructive language is important in reading and understanding the Report and the Code. The word ‘must’ indicates a legal requirement. In aspects where we believe the application of the Code will result in good governance, the word ‘should’ is used. The word ‘may’ indicates areas where the Committee recommends certain practices for consideration.

The Report is set out in nine chapters with the leadership and corporate citizenship chapter establishing the foundation for the report and the boards and directors chapter as the overarching chapter. The subsequent chapters cover certain aspects of the boards and directors chapter in more detail. Each chapter contains the key principles of governance and then explanations as to how to carry out the principles by means of application of best practice recommendations.

13. Application of the Code

In contrast to the King I and II codes, King III applies to all entities regardless of the manner and form of incorporation or establishment and whether in the public, private sectors or non-profit sectors. We have drafted the principles so that every entity can apply them and, in doing so, achieve good governance.

All entities should apply the principles in the Code and consider the best practice recommendations in the Report. All entities should by way of explanation make a positive statement about how the principles have been applied or have not been applied. This level of disclosure will allow stakeholders to comment on and challenge the board on the quality of its governance. The manner of application will differ for each entity and is likely to change as the aspirational nature of the Code should drive entities to continually improve governance practices. It is important to understand that the ‘apply or explain’ approach requires more consideration – application of the mind - and explanation of what has actually been done to implement the principles and best practice recommendations of governance.

Each principle is of equal importance and together forms a holistic approach to governance. Consequently, ‘substantial’ application of this Code and the Report does not achieve compliance.

The Code applies to entities incorporated in and resident in South Africa. Foreign subsidiaries of local companies should apply the Code to the extent prescribed by the holding company and subject to entity-specific foreign legislation.

The Practice Notes to King III, issued by the IoD, provide the necessary guidance to all entities on implementing the Code.

14. Effective date

It is expected that the new Act will become operative on 1 July 2010. The King III report will be effective from 1 March 2010 and until then, King II will apply.

15. Appreciation

I record my thanks and appreciation to my Committee and the subcommittee members who devoted so much time and effort in the interests of corporate South Africa without remuneration or reimbursement of expenses. In particular, I thank Lindie Engelbrecht, who tirelessly convened the chairs of the subcommittees, collected subcommittee reports and edited them before passing them to me for my scrutiny. I also record my thanks to Michael Katz for checking the legal aspects contained in the Report.

Mervyn King.

Mervyn E King, SC, King Committee Chairman
1 September 2009

CODE
OF GOVERNANCE PRINCIPLES

Corporate governance principles and practices are dynamic and evolve.

This Code of governance, which deals with the Principles, should be studied with the Report in which recommendations of the best practices for each principle are provided.

All entities should apply the principles in the Code and consider the best practice recommendations in the Report. All entities should by way of explanation make a positive statement about how the principles have been applied or have not been applied. This level of disclosure will allow stakeholders to comment on and challenge the board on the quality of its governance. The application will differ for each entity and is likely to change as the aspirational nature of the Code should drive entities to continuously improve governance practices. It is important to understand that the 'apply or explain' approach requires more consideration and explanation of what has actually been done to implement the principles and best practice recommendations of governance.

Each principle is of equal importance and together forms a holistic approach to governance. Consequently, 'substantial' application of this Code and the Report does not achieve compliance.

Detailed implementation guidance and tools are provided in the Practice Notes.

Although the terms 'company', 'boards' and 'directors' are used, this Code and the Report refer to the functional responsibility of those charged with governance in any entity and should be adapted as appropriate.

Governance element	**Principle(s)**	**Recommended Practice**
1. Ethical leadership and corporate citizenship		
Responsible leadership	1.1 The board should provide effective leadership based on an ethical foundation	Ethical leaders should: 1.1.1. direct the strategy and operations to build a sustainable business; 1.1.2. consider the short- and long-term impacts of the strategy on the economy, society and the environment; 1.1.3. do business ethically; 1.1.4. do not compromise the natural environment; and 1.1.5. take account of the company's impact on internal and external stakeholders.

Governance element	Principle(s)	Recommended Practice
The board's responsibilities		The board should: 1.1.6. be responsible for the strategic direction of the company and for the control of the company; 1.1.7. set the values to which the company will adhere formulated in its code of conduct; 1.1.8. ensure that its conduct and that of management aligns to the values and is adhered to in all aspects of its business; and 1.1.9. promote the stakeholder-inclusive approach of governance.
Ethical foundation		The board should: 1.1.10. ensure that all deliberations, decisions and actions are based on the four values underpinning good governance; and 1.1.11. ensure that each director adheres to the duties of a director.
	1.2. The board should ensure that the company is and is seen to be a responsible corporate citizen	The board should: 1.2.1. consider not only on financial performance but also the impact of the company's operations on society and the environment; 1.2.2. protect, enhance and invest in the well-being of the economy, society and the environment; 1.2.3. ensure that the company's performance and interaction with its stakeholders is guided by the Constitution and the Bill of Rights;

Governance element	Principle(s)	Recommended Practice
		1.2.4. ensure that collaborative efforts with stakeholders are embarked upon to promote ethical conduct and good corporate citizenship; 1.2.5. ensure that measurable corporate citizenship programmes are implemented; and 1.2.6. ensure that management develops corporate citizenship policies.
	1.3. The board should ensure that the company's ethics are managed effectively	The board should ensure that: 1.3.1. it builds and sustains an ethical corporate culture in the company; 1.3.2. it determines the ethical standards which should be clearly articulated and ensures that the company takes measures to achieve adherence to them in all aspects of the business; 1.3.3. adherence to ethical standards is measured; 1.3.4. internal and external ethics performance is aligned around the same ethical standards; 1.3.5. ethical risks and opportunities are incorporated in the risk management process; 1.3.6. a code of conduct and ethics-related policies are implemented; 1.3.7. compliance with the code of conduct is integrated in the operations of the company; and 1.3.8. the company's ethics performance should be assessed, monitored, reported and disclosed.
2. Boards and directors		
Role and function of the board	2.1. The board should act as the focal point for and custodian of corporate governance	The board should: 2.1.1. have a charter setting out its responsibilities;

Governance element	Principle(s)	Recommended Practice
		2.1.2. meet at least four times per year; 2.1.3. monitor the relationship between management and the stakeholders of the company; and 2.1.4. ensure that the company survives and thrives.
	2.2. The board should appreciate that strategy, risk, performance and sustainability are inseparable	The board should: 2.2.1. inform and approve the strategy; 2.2.2. ensure that the strategy is aligned with the purpose of the company, the value drivers of its business and the legitimate interests and expectations of its stakeholders; 2.2.3. satisfy itself that the strategy and business plans are not encumbered by risks that have not been thoroughly examined by management; and 2.2.4. ensure that the strategy will result in sustainable outcomes taking account of people, planet and profit.
	2.3. The board should provide effective leadership based on an ethical foundation	Refer principle 1.1
	2.4. The board should ensure that the company is and is seen to be a responsible corporate citizen	Refer principle 1.2
	2.5. The board should ensure that the company's ethics are managed effectively	Refer principle 1.3
	2.6. The board should ensure that the company has an effective and independent audit committee	Refer to chapter 3

Governance element	Principle(s)	Recommended Practice
	2.7. The board should be responsible for the governance of risk	Refer to chapter 4
	2.8. The board should be responsible for information technology (IT) governance	Refer to chapter 5
	2.9. The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards	Refer to chapter 6
	2.10. The board should ensure that there is an effective risk-based internal audit	Refer to chapter 7
	2.11. The board should appreciate that stakeholders' perceptions affect the company's reputation	Refer to chapter 8
	2.12. The board should ensure the integrity of the company's integrated report	Refer to chapter 9
	2.13. The board should report on the effectiveness of the company's system of internal controls	Refer to chapters 7 and 9
	2.14. The board and its directors should act in the best interests of the company	2.14.1. The board must act in the best interests of the company. 2.14.2. Directors must adhere to the legal standards of conduct. 2.14.3. Directors or the board should be permitted to take independent advice in connection with their duties following an agreed procedure. 2.14.4. Real or perceived conflicts should be disclosed to the board and managed.

Governance element	Principle(s)	Recommended Practice
		2.14.5. Listed companies should have a policy regarding dealing in securities by directors, officers and selected employees.
	2.15. The board should consider business rescue proceedings or other turnaround mechanisms as soon as the company is financially distressed as defined in the Act	The board should ensure that: 2.15.1. the solvency and liquidity of the company is continuously monitored; 2.15.2. its consideration is fair to save a financially distressed company either by way of work-outs, sale, merger, amalgamation, compromise with creditors or business rescue ; 2.15.3. a suitable practitioner is appointed if business rescue is adopted; and 2.15.4. the practitioner furnishes security for the value of the assets of the company.
	2.16. The board should elect a chairman of the board who is an independent non-executive director. The CEO of the company should not also fulfil the role of chairman of the board	2.16.1. The members of the board should elect a chairman on an annual basis. 2.16.2. The chairman should be independent and free of conflict upon appointment. 2.16.3. A lead independent director should be appointed in the case where an executive chairman is appointed or where the chairman is not independent or conflicted. 2.16.4. The appointment of a chairman, who is not independent, should be justified in the integrated report. 2.16.5. The role of the chairman should be formalised. 2.16.6. The chairman's ability to add value, and his performance against what is expected of his role and function, should be assessed every year.

Governance element	Principle(s)	Recommended Practice
		2.16.7. The CEO should not become the chairman until 3 years have lapsed. 2.16.8. The chairman together with the board, should consider the number of outside chairmanships held. 2.16.9. The board should ensure a succession plan for the role of the chairman.
	2.17. The board should appoint the chief executive officer and establish a framework for the delegation of authority	The board should: 2.17.1. appoint the CEO; 2.17.2. provide input regarding senior management appointments; 2.17.3. define its own level of materiality and approve a delegation of authority framework; 2.17.4. ensure that the role and function of the CEO is formalised and the performance of the CEO is evaluated against the criteria specified; and 2.17.5. ensure succession planning for the CEO and other senior executives and officers is in place.
Composition of the board	2.18. The board should comprise a balance of power, with a majority of non-executive directors. The majority of non-executive directors should be independent	2.18.1. The majority of board members should be non-executive directors. 2.18.2. The majority of the non-executive directors should be independent. 2.18.3. When determining the number of directors serving on the board, the knowledge, skills and resources required for conducting the business of the board should be considered. 2.18.4. Every board should consider whether its size, diversity and demographics make it effective.

Governance element	Principle(s)	Recommended Practice
		2.18.5. Every board should have a minimum of two executive directors of which one should be the CEO and the other the director responsible for finance. 2.18.6. At least one third of the non-executive directors should rotate every year. 2.18.7. The board, through its nomination committee, should recommend the eligibility of prospective directors. 2.18.8. Any independent non-executive directors serving more than 9 years should be subjected to a rigorous review of his independence and performance by the board. 2.18.9. The board should include a statement in the integrated report regarding the assessment of the independence of the independent non-executive directors. 2.18.10. The board should be permitted to remove any director without shareholder approval.
Board appointment process	2.19 Directors should be appointed through a formal process	2.19.1. A nomination committee should assist with the process of identifying suitable members of the board. 2.19.2. Background and reference checks should be performed before the nomination and appointment of directors. 2.19.3. The appointment of non-executive directors should be formalised through a letter of appointment. 2.19.4. The board should make full disclosure regarding individual directors to enable shareholders to make their own assessment of directors.

Governance element	Principle(s)	Recommended Practice
Director development	2.20. The induction of and ongoing training and development of directors should be conducted through formal processes	The board should ensure that: 2.20.1. a formal induction programme is established for new directors; 2.20.2. inexperienced directors are developed through mentorship programmes; 2.20.3. continuing professional development programmes are implemented; and 2.20.4. directors receive regular briefings on changes in risks, laws and the environment.
Company secretary	2.21 The board should be assisted by a competent, suitably qualified and experienced company secretary	2.21.1. The board should appoint and remove the company secretary. 2.21.2. The board should empower the individual to enable him to properly fulfil his duties. The company secretary should: 2.21.3. have an arms-length relationship with the board; 2.21.4. not be a director of the company; 2.21.5. assist the nominations committee with the appointment of directors; 2.21.6. assist with the director induction and training programmes; 2.21.7. provide guidance to the board on the duties of the directors and good governance; 2.21.8. ensure board and committee charters are kept up to date; 2.21.9. prepare and circulate board papers; 2.21.10. elicit responses, input, feedback for board and board committee meetings; 2.21.11. assist in drafting yearly work plans; 2.21.12. ensure preparation and circulation of minutes of board and committee meetings;

Governance element	Principle(s)	Recommended Practice
		and 2.21.13. assist with the evaluation of the board, committees and individual directors.
Performance assessment	2.22 The evaluation of the board, its committees and the individual directors should be performed every year	2.22.1. The board should determine its own role, functions, duties and performance criteria as well as that for directors on the board and board committees to serve as a benchmark for the performance appraisal. 2.22.2. Yearly evaluations should be performed by the chairman or an independent provider. 2.22.3. The results of performance evaluations should identify training needs for directors. 2.22.4. An overview of the appraisal process, results and action plans should be disclosed in the integrated report. 2.22.5. The nomination for the re-appointment of a director should only occur after the evaluation of the perfomance and attendance of the director.
Board committees	2.23. The board should delegate certain functions to well-structured committees but without abdicating its own responsibilities	2.23.1. Formal terms of reference should be established and approved for each committee of the board. 2.23.2. The committees' terms of reference should be reviewed yearly. 2.23.3. The committees should be appropriately constituted and the composition and the terms of reference should be disclosed in the integrated report. 2.23.4. Public and state-owned companies must appoint an audit committee.

Governance element	Principle(s)	Recommended Practice
		2.23.5. All other companies should establish an audit committee and define its composition, purpose and duties in the memorandum of incorporation. 2.23.6. Companies should establish risk, nomination and remuneration committees. 2.23.7. Committees, other than the risk committee, should comprise a majority of non-executive directors of which the majority should be independent. 2.23.8. External advisers and executive directors should attend committee meetings by invitation. 2.23.9. Committees should be free to take independent outside professional advice at the cost of the company subject to an approved process being followed.
Group boards	2.24. A governance framework should be agreed between the group and its subsidiary boards	2.24.1. Listed subsidiaries must comply with the rules of the relevant stock exchange in respect of insider trading. 2.24.2. The holding company must respect the fiduciary duties of the director serving in a representative capacity on the board of the subsidiary. 2.24.3. The implementation and adoption of policies, processes or procedures of the holding company should be considered and approved by the subsidiary company. 2.24.4. Disclosure should be made on the adoption of the holding company's policies in the integrated report of the subsidiary company.

Governance element	Principle(s)	Recommended Practice
Remuneration of directors and senior executives	2.25. Companies should remunerate directors and executives fairly and responsibly	2.25.1. Companies should adopt remuneration policies aligned with the strategy of the company and linked to individual performance. 2.25.2. The remuneration committee should assist the board in setting and administering remuneration policies. 2.25.3. The remuneration policy should address base pay and bonuses, employee contracts, severance and retirement benefits and share-based and other long-term incentive schemes. 2.25.4. Non-executive fees should comprise a base fee as well as an attendance fee per meeting.
	2.26. Companies should disclose the remuneration of each individual director and certain senior executives	The remuneration report, included in the integrated report, should include: 2.26.1. all benefits paid to directors; 2.26.2. the salaries of the three most highly-paid employees who are not directors; 2.26.3. the policy on base pay; 2.26.4. participation in share incentive schemes; 2.26.5. the use of benchmarks; 2.26.6. incentive schemes to encourage retention; 2.26.7. justification of salaries above the median; 2.26.8. material payments that are ex-gratia in nature; 2.26.9. policies regarding executive employment; and 2.26.10. the maximum expected potential dilution as a result of incentive awards.

Governance element	Principle(s)	Recommended Practice
	2.27. Shareholders should approve the company's remuneration policy	2.27.1. Shareholders should pass a non-binding advisory vote on the company's yearly remuneration policy. 2.27.2. The board should determine the remuneration of executive directors in accordance with the remuneration policy put to shareholder's vote.
3. Audit committees		
	3.1. The board should ensure that the company has an effective and independent audit committee	3.1.1. Listed and state-owned companies must establish an audit committee. 3.1.2. All other companies should establish an audit committee and define its composition, purpose and duties in the memorandum of incorporation. 3.1.3. The board should approve the terms of reference of the audit committee. 3.1.4. The audit committee should meet as often as is necessary to fulfil its functions but at least twice a year. 3.1.5. The audit committee should meet with internal and external auditors at least once a year without management being present.
Membership and resources of the audit committee	3.2. Audit committee members should be suitably skilled and experienced independent non-executive directors	3.2.1. All members of the audit committee should be independent non-executive directors. 3.2.2. The audit committee should consist of at least three members. 3.2.3. The chairman of the board should not be the chairman or member of the audit committee.

Governance element	Principle(s)	Recommended Practice
		3.2.4. The committee collectively should have sufficient qualifications and experience to fulfil its duties. 3.2.5. The audit committee members should keep up-to-date with developments affecting the required skill-set. 3.2.6. The committee should be permitted to consult with specialists or consultants subject to a board-approved process. 3.2.7. The board must fill any vacancies on the audit committee.
	3.3. The audit committee should be chaired by an independent non-executive director	3.3.1. The board should elect the chairman of the audit committee. 3.3.2. The chairman of the audit committee should participate in setting and agreeing the agenda of the committee. 3.3.3. The chairman of the audit committee should be present at the AGM.
Responsibilities of the audit committee	3.4. The audit committee should oversee integrated reporting	3.4.1. The audit committee should have regard to all factors and risks that may impact on the integrity of the integrated report. 3.4.2. The audit committee should review and comment on the financial statements included in the integrated report. 3.4.3. The audit committee should review the disclosure of sustainability issues in the integrated report to ensure that it is reliable and does not conflict with the financial information.

Governance element	Principle(s)	Recommended Practice
		3.4.4. The audit committee should recommend to the board to engage an external assurance provider on material sustainability issues. 3.4.5. The audit committee should consider the need to issue interim results. 3.4.6. The audit committee should review the content of the summarised information. 3.4.7. The audit committee should engage the external auditors to provide assurance on the summarised financial information.
	3.5. The audit committee should ensure that a combined assurance model is applied to provide a coordinated approach to all assurance activities	3.5.1. The audit committee should ensure that the combined assurance is received is appropriate to address all the significant risks facing the company. 3.5.2. The relationship between the external assurance providers and the company should be monitored by the audit committee.
Internal assurance providers	3.6. The audit committee should satisfy itself of the expertise, resources and experience of the company's finance function	3.6.1. Every year a review of the finance function should be performed by the audit committee. 3.6.2. The results of the review should be disclosed in the integrated report.
	3.7. The audit committee should be responsible for overseeing of internal audit	3.7.1. The audit committee should be responsible for the appointment, performance assessment and/or dismissal of the CAE. 3.7.2. The audit committee should approve the internal audit plan.

Governance element	Principle(s)	Recommended Practice
		3.7.3. The audit committee should ensure that the internal audit function is subject to an independent quality review as and when the committee determines it appropriate.
	3.8. The audit committee should be an integral component of the risk management process	3.8.1. The charter of the audit committee should set out its responsibilities regarding risk management. 3.8.2. The audit committee should specifically have oversight of: 3.8.2.1. financial reporting risks; 3.8.2.2. internal financial controls; 3.8.2.3. fraud risks as it relates to financial reporting; and 3.8.2.4. IT risks as it relates to financial reporting.
External assurance providers	3.9. The audit committee is responsible for recommending the appointment of the external auditor and overseeing the external audit process	The audit committee: 3.9.1. must nominate the external auditor for appointment; 3.9.2. must approve the terms of engagement and remuneration for the external audit engagement; 3.9.3. must monitor and report on the independence of the external auditor; 3.9.4. must define a policy for non-audit services provided by the external auditor and must approve the contracts for non-audit services; 3.9.5. should be informed of any Reportable Irregularities identified and reported by the external auditor; and 3.9.6. should review the quality and effectiveness of the external audit process.

Governance element	Principle(s)	Recommended Practice
Reporting	3.10. The audit committee should report to the board and shareholders on how it has discharged its duties	3.10.1. The audit committee should report internally to the board on its statutory duties and duties assigned to it by the board. 3.10.2. The audit committee must report to the shareholders on its statutory duties: 3.10.2.1. how its duties were carried out; 3.10.2.2. if the committee is satisfied with the independence of the external auditor; 3.10.2.3. the committee's view on the financial statements and the accounting practices; and 3.10.2.4. whether the internal financial controls are effective. 3.10.3. The audit committee should provide a summary of its role and details of its composition, number of meetings and activities, in the integrated report. 3.10.4. The audit committee should recommend the integrated report for approval by the board.
4. The governance of risk		
The board's responsibility for risk governance	4.1. The board should be responsible for the governance of risk	4.1.1. A policy and plan for a system and process of risk management should be developed. 4.1.2. The board should comment in the integrated report on the effectiveness of the system and process of risk management. 4.1.3. The board's responsibility for risk governance should be expressed in the board charter. 4.1.4. The induction and ongoing training programmes of the board should incorporate risk governance.

Governance element	Principle(s)	Recommended Practice
		4.1.5. The board's responsibility for risk governance should manifest in a documented risk management policy and plan. 4.1.6. The board should approve the risk management policy and plan. 4.1.7. The risk management policy should be widely distributed throughout the company. 4.1.8. The board should review the implementation of the risk management plan at least once a year. 4.1.9. The board should ensure that the implementation of the risk management plan is monitored continually.
	4.2. The board should determine the levels of risk tolerance	4.2.1. The board should set the levels of risk tolerance once a year. 4.2.2. The board may set limits for the risk appetite. 4.2.3. The board should monitor that risks taken are within the tolerance and appetite levels.
	4.3. The risk committee or audit committee should assist the board in carrying out its risk responsibilities	4.3.1. The board should appoint a committee responsible for risk. 4.3.2. The risk committee should: 4.3.2.1. consider the risk management policy and plan and monitor the risk management process; 4.3.2.2. have as its members executive and non-executive directors, members of senior management and independent risk management experts to be invited, if necessary; 4.3.2.3. have a minimum of three members; and

Governance element	Principle(s)	Recommended Practice
		4.3.2.4. convene at least twice per year. 4.3.3. The performance of the committee should be evaluated once a year by the board.
Management's responsibility for risk management	4.4. The board should delegate to management the responsibility to design, implement and monitor the risk management plan	4.4.1. The board's risk strategy should be executed by management by means of risk management systems and processes. 4.4.2. Management is accountable for integrating risk in the day-to-day activities of the company. 4.4.3. The CRO should be a suitably experienced person who should have access and interact regularly on strategic matters with the board and/or appropriate board committee and executive management.
Risk assessment	4.5. The board should ensure that risk assessments are performed on a continual basis	4.5.1. The board should ensure effective and ongoing risk assessments are performed. 4.5.2. A systematic, documented, formal risk assessment should be conducted at least once a year. 4.5.3. Risks should be prioritised and ranked to focus responses and interventions. 4.5.4. The risk assessment process should involve the risks affecting the various income streams of the company, the critical dependencies of the business, the sustainability and the legitimate interests and expectations of stakeholders. 4.5.5. Risk assessments should adopt a top-down approach. 4.5.6. The board should regularly receive and review a register of the company's key risks.

Governance element	Principle(s)	Recommended Practice
		4.5.7. The board should ensure that key risks are quantified where practicable.
	4.6. The board should ensure that frameworks and methodologies are implemented to increase the probability of anticipating unpredictable risks	4.6.1. The board should ensure that a framework and processes are in place to anticipate unpredictable risks.
Risk response	4.7. The board should ensure that management considers and implements appropriate risk responses	4.7.1. Management should identify and note in the risk register the risk responses decided upon. 4.7.2. Management should demonstrate to the board that the risk response provides for the identification and exploitation of opportunities to improve the performance of the company.
Risk monitoring	4.8. The board should ensure continual risk monitoring by management	4.8.1. The board should ensure that effective and continual monitoring of risk management takes place. 4.8.2. The responsibility for monitoring should be defined in the risk management plan.
Risk assurance	4.9. The board should receive assurance regarding the effectiveness of the risk management process	4.9.1. Management should provide assurance to the board that the risk management plan is integrated in the daily activities of the company. 4.9.2. Internal audit should provide a written assessment of the effectiveness of the system of internal controls and risk management to the board.

Governance element	Principle(s)	Recommended Practice
Risk disclosure	4.10. The board should ensure that there are processes in place enabling complete, timely, relevant, accurate and accessible risk disclosure to stakeholders	4.10.1. Undue, unexpected or unusual risks should be disclosed in the integrated report. 4.10.2. The board should disclose its view on the effectiveness of the risk management process in the integrated report.
5. The governance of information technology		
	5.1. The board should be responsible for information technology (IT) governance	5.1.1. The board should assume the responsibility for the governance of IT and place it on the board agenda. 5.1.2. The board should ensure that an IT charter and policies are established and implemented. 5.1.3. The board should ensure promotion of an ethical IT governance culture and awareness and of a common IT language. 5.1.4. The board should ensure that an IT internal control framework is adopted and implemented . 5.1.5. The board should receive independent assurance on the effectiveness of the IT internal controls.
	5.2. IT should be aligned with the performance and sustainability objectives of the company	5.2.1. The board should ensure that the IT strategy is integrated with the company's strategic and business processes. 5.2.2. The board should ensure that there is a process in place to identity and exploit opportunities to improve the performance and sustainability of the company through the use of IT.

Governance element	Principle(s)	Recommended Practice
	5.3. The board should delegate to management the responsibility for the implementation of an IT governance framework	5.3.1. Management should be responsible for the implementation of the structures, processes and mechanisms for the IT governance framework. 5.3.2. The board may appoint an IT steering committee of similar function to assist with its governance of IT. 5.3.3. The CEO should appoint a Chief Information Officer responsible for the management of IT. 5.3.4. The CIO should be a suitably qualified and experienced person who should have access and interact regularly on strategic IT matters with the board and/or appropriate board committee and executive management.
	5.4. The board should monitor and evaluate significant IT investments and expenditure	5.4.1. The board should oversee the value delivery of IT and monitor the return on investment from significant IT projects. 5.4.2. The board should ensure that intellectual property contained in information systems are protected. 5.4.3. The board should obtain independent assurance on the IT governance and controls supporting outsourced IT services.
	5.5. IT should form an intergral part of the company's risk management	5.5.1. Management should regularly demonstrate to the board that the company has adequate business resilience arrangements in place for disaster recovery. 5.5.2. The board should ensure that the company complies with IT laws and that IT related rules, codes and standards are considered.

Governance element	Principle(s)	Recommended Practice
	5.6. The board should ensure that information assets are managed effectively	5.6.1. The board should ensure that there are systems in place for the management of information which should include information security, information management and information privacy. 5.6.2. The board should ensure that all personal information is treated by the company as an important business asset and is identified. 5.6.3. The board should ensure that an Information Security Management System is developed and implemented. 5.6.4. The board should approve the information security strategy and delegate and empower management to implement the strategy.
	5.7. A risk committee and audit committee should assist the board in carrying out its IT responsibilities	5.7.1. The risk committee should ensure that IT risks are adequately addressed. 5.7.2. The risk committee should obtain appropriate assurance that controls are in place and effective in addressing IT risks. 5.7.3. The audit committee should consider IT as it relates to financial reporting and the going concern of the company. 5.7.4. The audit committee should consider the use of technology to improve audit coverage and efficiency.
6. Compliance with laws, rules, codes and standards		
	6.1. The board should ensure that the company complies with applicable laws and considers adherence to non-binding rules, codes and standards	6.1.1. Companies must comply with all applicable laws. 6.1.2. Exceptions permitted in law, shortcomings and proposed changes expected should be handled ethically.

Governance element	Principle(s)	Recommended Practice
		6.1.3. Compliance should be an ethical imperative. 6.1.4. Compliance with applicable laws should be understood not only in terms of the obligations that they create, but also for the rights and protection that they afford. 6.1.5. The board should understand the context of the law, and how other applicable laws interact with it. 6.1.6. The board should monitor the company's compliance with applicable laws, rules, codes and standards. 6.1.7. Compliance should be a regular item on the agenda of the board. 6.1.8. The board should disclose details in the integrated report on how it discharged its responsibility to establish an effective compliance framework and processes.
	6.2. The board and each individual director should have a working understanding of the effect of the applicable laws, rules, codes and standards on the company and its business	6.2.1. The induction and ongoing training programmes of directors should incorporate an overview of and any changes to applicable laws, rules, codes and standards. 6.2.2. Directors should sufficiently familiarise themselves with the general content of applicable laws, rules, codes and standards to discharge their legal duties.
	6.3. Compliance risk should form an integral part of the company's risk management process	6.3.1. The risk of non-compliance should be identified, assessed and responded to through the risk management processes. 6.3.2. Companies should consider establishing a compliance function.

Governance element	Principle(s)	Recommended Practice
	6.4. The board should delegate to management the implementation of an effective compliance framework and processes	6.4.1. The board should ensure that a legal compliance policy, approved by the board, has been implemented by management. 6.4.2. The board should receive assurance on the effectiveness of the controls around compliance with laws, rules, codes and standards. 6.4.3. Compliance with laws, rules, codes and standards should be incorporated in the code of conduct of the company. 6.4.4. Management should establish the appropriate structures, educate and train, and communicate and measure key performance indicators relevant to compliance. 6.4.5. The integrated report should include details of material or often repeated instances of non-compliance by either the company or its directors in their capacity as such. 6.4.6. An independent, suitably skilled compliance officer may be appointed. 6.4.7. The compliance officer should be a suitably skilled and experienced person who should have access and interact regularly on strategic compliance matters with the board and/or appropriate board committee and executive management. 6.4.8. The structuring of the compliance function, its role and its position in terms of reporting lines should be a reflection of the company's decision on how compliance is to be integrated with its ethics and risk management.

Governance element	Principle(s)	Recommended Practice
		6.4.9. The compliance function should have adequate resources to fulfil its function.
7. Internal audit		
The need for and role of internal audit	7.1. The board should ensure that there is an effective risk based internal audit	7.1.1. Companies should establish an internal audit function. 7.1.2. Internal audit should perform the following functions: 7.1.2.1 evaluate the company's governance processes; 7.1.2.2. perform an objective assessment of the effectiveness of risk management and the internal control framework; 7.1.2.3. systematically analyse and evaluating business processes and associated controls; and 7.1.2.4. provide a source of information as appropriate, regarding instances of fraud, corruption, unethical behaviour and irregularities. 7.1.3. An internal audit charter should be defined and approved by the board. 7.1.4. The internal audit function should adhere to the IIA Standards and code of ethics.
Internal audit's approach and plan	7.2. Internal audit should follow a risk based approach to its plan	7.2.1. The internal audit plan and approach should be informed by the strategy and risks of the company. 7.2.2. Internal audit should be independent from management. 7.2.3. Internal audit should be an objective provider of assurance that considers: 7.2.3.1. the risks that may prevent or slow down the realisation of strategic goals;

Governance element	Principle(s)	Recommended Practice
		7.2.3.2. whether controls are in place and functioning effectively to mitigate these; and 7.2.3.3. the opportunities that will promote the realisation of strategic goals that are identified, assessed and effectively managed by the company's management team.
	7.3. Internal audit should provide a written assessment of the effectiveness of the company's system of internal controls and risk management	7.3.1. Internal audit should form an integral part of the combined assurance model as internal assurance provider. 7.3.2. Internal controls should be established not only over financial matters, but also operational, compliance and sustainability issues. 7.3.3. Companies should maintain an effective governance, risk management and internal control framework. 7.3.4. Management should specify the elements of the control framework. 7.3.5. Internal audit should provide a written assessment of the system of internal controls and risk management to the board. 7.3.6. Internal audit should provide a written assessment of internal financial controls to the audit committee.
	7.4. The audit committee should be responsible for overseeing internal audit	7.4.1. The internal audit plan should be agreed and approved by the audit committee. 7.4.2. The audit committee should evaluate the performance of the internal audit function. 7.4.3. The audit committee should ensure that the internal audit function is subjected to an independent quality review.

Governance element	Principle(s)	Recommended Practice
		7.4.4. The CAE should report functionally to the audit committee chairman. 7.4.5. The audit committee should be responsible for the appointment, perfomance assessment and dismissal of the CAE. 7.4.6. The audit committee should ensure that the internal audit function is appropriately resourced and has appropriate budget allocated to the function. 7.4.7. Internal audit should report at all audit committee meetings.
Internal audit's status in the company	7.5. Internal audit should be strategically positioned to achieve its objectives	7.5.1. The internal audit function should be independent and objective. 7.5.2. The internal audit function should report functionally to the audit committee. 7.5.3. The CAE should have a standing invitation to attend executive committee meetings. 7.5.4. The internal audit function should be skilled and resourced as is appropriate for the complexity and volume of risk and assurance needs. 7.5.5. The CAE should develop and maintain a quality assurance and improvement programme.
8. Governing stakeholder relationships		
	8.1. The board should appreciate that stakeholders' perceptions affect a company's reputation	8.1.1. The gap between stakeholder perceptions and the performance of the company should be managed and measured to enhance or protect the company's reputation.

Governance element	Principle(s)	Recommended Practice
		8.1.2. The company's reputation and its linkage with stakeholder relationships should be a regular board agenda item. 8.1.3. The board should identify important stakeholder groupings.
	8.2. The board should delegate to management to proactively deal with stakeholder relationships	8.2.1. Management should develop a strategy and formulate policies for the management of relationships with each stakeholder grouping. 8.2.2. The board should consider whether it is appropriate to publish its stakeholder policies. 8.2.3. The board should oversee the establishment of mechanisms and processes that support stakeholders in constructive engagement with the company. 8.2.4. The board should encourage shareholders to attend AGM's. 8.2.5. The board should consider not only formal, but also informal, processes for interaction with the company's stakeholders. 8.2.6. The board should disclose in its integrated report the nature of the company's dealings with stakeholders and the outcomes of these dealings.
	8.3. The board should strive to achieve the appropriate balance between its various stakeholder groupings, in the best interests of the company	8.3.1. The board should take account of the legitimate interests and expectations of its stakeholders in its decision-making in the best interests of the company.
	8.4. Companies should ensure the equitable treatment of shareholders	8.4.1. There must be equitable treatment of all holders of the same class of shares issued.

Governance element	Principle(s)	Recommended Practice
		8.4.2. The board should ensure that minority shareholders are protected.
	8.5. Transparent and effective communication with stakeholders is essential for building and maintaining their trust and confidence	8.5.1. Complete, timely, relevant, accurate, honest and accessible information should be provided by the company to its stakeholders whilst having regard to legal and strategic considerations. 8.5.2. Communication with stakeholders should be in clear and understandable language. 8.5.3. The board should adopt communication guidelines that support a responsible communication programme. 8.5.4. The board should consider disclosing in the integrated report the number and reasons for refusals of requests of information that were lodged with the company in terms of the Promotion of Access to Information Act, 2000.
Dispute resolution	8.6. The board should ensure that disputes are resolved as effectively, efficiently and expeditiously as possible	8.6.1. The board should adopt formal dispute resolution processes for internal and external disputes. 8.6.2. The board should select the appropriate individuals to represent the company in ADR.
9. Integrated reporting and disclosure		
Transparency and accountability	9.1. The board should ensure the integrity of the company's integrated report	9.1.1. A company should have controls to enable it to verify and safeguard the integrity of its integrated report. 9.1.2. The board should delegate to the audit committee to evaluate sustainability disclosures.

Governance element	Principle(s)	Recommended Practice
		The integrated report should: 9.1.3. be prepared every year; 9.1.4. convey adequate information regarding the company's financial and sustainability performance; and 9.1.5. focus on substance over form.
	9.2. Sustainability reporting and disclosure should be integrated with the company's financial reporting	9.2.1. The board should include commentary on the company's financial results. 9.2.2. The board must disclose if the company is a going concern. 9.2.3. The integrated report should describe how the company has made its money. 9.2.4. The board should ensure that the positive and negative impacts of the company's operations and plans to improve the positives and eradicate or ameliorate the negatives in the financial year ahead are conveyed in the integrated report.
	9.3. Sustainability reporting and disclosure should be independently assured	9.3.1. General oversight and reporting of sustainability should be delegated by the board to the audit committee. 9.3.2. The audit committee should assist the board by reviewing the integrated report to ensure that the information contained in it is reliable and that it does not contradict the financial aspects of the report. 9.3.3. The audit committee should oversee the provision of assurance over sustainability issues.

GLOSSARY OF TERMS

ADR		Alternative Dispute Resolution
	AFSA	Arbitration Foundation of Southern Africa
	Conciliation	A structured negotiation process involving the services of an impartial third party. A conciliator (neutral) will, in addition to playing the role of a mediator, make a formal recommendation to the parties as to how the dispute can be resolved
	Mediation	A process where parties in dispute involve the services of an acceptable, impartial and neutral third party to assist them in negotiating a resolution to their dispute, by way of a settlement agreement. Mediators do not make formal recommendations about resolution of the dispute. 'Conciliation' and 'Mediation' are often used interchangeably and indiscriminately
	Negotiation	The process of working out an agreement by direct communication
	Neutral	Independent third party who acts as mediator, conciliator or chairman in various ADR procedures
Accountable		Being responsible and able to justify and explain decisions and actions
AGM		Annual General Meeting
BEE		Black Economic Empowerment
CAE		Chief Audit Executive
CEO		Chief Executive Officer
CFO		Chief Financial Officer
CIO		Chief Information Officer
Combined assurance		Integrating and aligning assurance processes in a company to maximise risk and governance oversight and control efficiencies, and optimise overall assurance to the audit and risk committee, considering the company's risk appetite
Corporate Citizenship		Responsible corporate citizenship implies an ethical relationship of responsibility between the company and the society in which it operates. As responsible corporate citizens of the societies in which they do business, companies have, apart from rights, also legal and moral obligations in respect of their economic, social and natural environments. As a responsible corporate citizen, the company should protect, enhance and invest in the wellbeing of the economy, society and the natural environment

Corporate Social Responsibility/ Corporate Re-sponsibility (CSR)		Is an important and critical component of the broader notion of corporate citizenship. One is a good corporate citizen, inter alia, by being socially responsible. Corporate responsibility is the responsibility of the company for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour that: contributes to sustain-able development, including health and the welfare of society; takes into account the legitimate interests and expectations of stakeholders; is in compliance with applicable law and consistent with international norms of behaviour; and is integrated throughout the company and practiced in its relationships. Activities include products, services and processes Relationships refer to a company's activities within its sphere of influence
Corporate Social Investment/ Re-sponsible Invest-ment (CSI)		Is one manifestation of Corporate Responsibility. In the narrow sense it refers to donations and other kinds of financial assistance (made for an altruistic purpose), and in the broader sense, includes other kinds of contributions beyond just financial assistance. Whilst Responsible Invest-ment is an important aspect of Corporate Responsibility, it should be an integral component of a broader economic, social and environmental (sustainability) strategy
COO		Chief Operating Officer
COSO		Committee of Sponsoring Organisations
CRO		Chief Risk Officer
Designated audi-tor		The auditor who is responsible for the audit and the auditor's report and is specified, in addition to the name of the audit firm appointed by the entity (Auditing Profession Act, No 26 of 2005)
ERM		Enterprise Risk Management is defined as comprehensive risk manage-ment that allows companies to identify, prioritise, and effectively man-age their crucial risks. An ERM approach integrates risk solutions into all aspects of business practices and decision making processes
ESG		Environmental, social and governance issues.
Ethics		'Ethics' and 'morality' (these terms can be used interchangeably) refer to that which is good or right in human interaction. Ethics involves three key, interlinked concepts – 'self', 'good', and 'other'. Thus, one's conduct is *ethical* if it gives due consideration not only to that which is *good* for *oneself*, but also good for *others*.
	Business ethics	'Business ethics' refers to the ethical values that determine the interaction between a company and its stakeholders

	Ethical values and ethical principles	Ethical values translate into behavioural commitments (principles) or behavioural directives (standards, norms, and guidelines). For example, the ethical value of honesty generates the principle "We should be honest". This means that we have an ethical duty not to deceive, but to tell the truth. In specific circumstances, the principle of honesty may clash with another ethical principle, such as the principle of respect – "We should respect the dignity of others". A clash of ethical principles results in an ethical dilemma. We need to employ ethical reasoning and deliberation to resolve ethical dilemmas.
	Values	Describing conduct as 'good' or 'right' means measuring it against standards, called 'values'. *Ethical values* are convictions we hold about what is important in our character and interactions with others. Examples of ethical values are integrity, respect, honesty (truthfulness), responsibility, accountability, fairness, transparency, and loyalty
Fairness		Free from discrimination or dishonesty and in conformity with rules and standards
GRI		Global Reporting Initiative - a network-based organisation
	G3 guidelines	GRI guidelines of 2007
ICGN		International Corporate Governance Network
IIA		Institute of Internal Auditors
Independence		Independence is the absence of undue influence and bias which can be affected by the intensity of the relationship between the director and the company
Information		Raw data that has been verified to be accurate and timely, is specific and organised for a purpose, is presented within a context that gives it meaning and relevance and which leads to increase in understanding and decrease in uncertainty
IT governance		IT governance can be considered as a framework that supports effective and efficient management of IT resources to facilitate the achievement of a company's strategic objectives.
	Application Service Provider (ASP)	Is a business that provides computer-based services to customers over a network
	Availability	The property of being accessible and usable upon demand by an authorised entity
	Business continuity	Is the activity performed by a company to ensure that critical business functions will be available to customers, suppliers, regulators, and other entities that must have access to those functions Preventing, mitigating and recovering from disruption. The terms 'business resumption planning', 'disaster recovery planning' and 'contingency planning' also may be used in this context; they all concentrate on the recovery aspects of continuity

	Classified information systems	Refers to a system of people, data records and activities that process the data and information in a company, and it includes the company's manual and automated processes. In a narrow sense, the term *information system* (or computer-based information system) refers to the specific application software that is used to store data records in a computer system and automates some of the information-processing activities of the company
	Cloud-computing	Is a style of computing in which dynamically scalable and often virtualized resources are provided as a service over the Internet
	Confidentiality	The property that information is not made available or disclosed to unauthorised individuals, entities, or processes
	Control framework	A control framework is a set of fundamental controls that must be in place to prevent financial or information loss in a company
	Data functions	Data functions are all functions and activities that pertain to the creation, modification, application, management and extermination of data within a company. This includes, but are not limited to the following: Architectural design; Data integrity; Storage; Reporting; Master data management; Data quality; and Legal compliance.
	Data privacy	Is the relationship between collection and dissemination of data, technology, the public expectation of privacy, and the legal and political issues surrounding them
	Data quality	Refers to the degree of excellence exhibited by the data in relation to the portrayal of the actual phenomena
	Information governance	Is an emerging discipline with an evolving definition. The discipline embodies a convergence of data quality, data management, business process management, and risk management surrounding the handling of data in a company. Also defined as data governance
	Information management program	A comprehensive information management program will improve the information-handling and administrative processes, the security of private information
	Information security	Information security is the protection of information from a wide range of threats in order to ensure business continuity, minimise business risk, and maximise return on investments and business opportunities

	Information security management program	The part of the overall management system, based on a business risk approach, to establish, implement, operate, monitor, review, maintain and improve information security. The management system includes organisational structure, policies, planning activities, responsibilities, practices, procedures, processes and resources
	Information security principles	Information security principles are the means of protecting information and information systems from unauthorised access, use, disclosure, disruption, modification or destruction
	Integrity	The property of safeguarding the accuracy and completeness of assets
	On-demand computing	Is a computing and communications infrastructure that facilitates flexible business service delivery
	Peripherals	Is a device attached to a host computer behind the chipset whose primary functionality is dependent upon the host, and can therefore be considered as expanding the host's capabilities, while not forming part of the system's core architecture. These include printers, faxes etc
	Platform as a Service (PaaS)	Is the delivery of a computing platform and solution stack as a service. It facilitates deployment of applications without the cost and complexity of buying and managing the underlying hardware and software layers providing all of the facilities required to support the complete life cycle of building and delivering web applications and services entirely available from the Internet, with no software downloads or installation for developers, IT managers or end-users. It's also known as cloudware
	Project management	Is the discipline of planning, organising and managing resources to bring about the successful completion of specific project goals and objectives. It is often closely related to and sometimes conflated with program management
	Security incident management program	Security incident management program is the monitoring and detection of security events on a computer or computer network, and the execution of proper responses to those events. It defines and implements a process that a company may adopt to promote its own welfare and the security of the public
	Software as a Service (SaaS)	Is a model of software deployment whereby a provider licenses an application to customers for use as a service on demand
	Software licensing	Is a contract between a producer and a purchaser of computer software that is included with software
ITGI		IT Governance Institute
Integrated reporting		Means a holistic and integrated representation of the company's performance in terms of both its finance and its sustainability
IoD		Institute of Directors in southern Africa
IRMSA		Institute of Risk Management South Africa
IRM (UK)		Institute of Risk Management United Kingdom

ISACA		Information Systems Audit and Control Association
ISMS		Information Security Management System
ISO		International Standards Organisation
IT		Information technology
JSE		Johannesburg Stock Exchange Limited
King I		Report on Corporate Governance issued in 1994
King II		Report on Corporate Governance issued in 2002
Laws		Acts promulgated by Parliament, regulation, subordinate legislation, international legislation, applicable binding industry codes and rules such as JSE listings requirements and contractual obligations
Legitimate interests and expectations		The interest and expectation could be concluded to be valid and justifiable on a legal, moral or ethical basis in the circumstances by a reasonable and informed party
LID		Lead Independent Director
Memorandum of Incorporation		As defined in the Companies Act, no 71 of 2008
MFMA		Municipal Finance Management Act, no 56 of 2003
Not for profit company		As defined in the Companies Act, no 71 of 2008
OECD		Organisation for Economic Cooperation and Development
PFMA		Public Finance Management Act, no 1 of 1999
Practitioner		A person appointed, or two or more persons appointed jointly, to oversee a company during business rescue proceedings
PRI		Principles for Responsible Investment: An investor initiative in partnership with UNEP Finance Initiative and the UN Global Compact
Private company		As defined in the Companies Act, no 71 of 2008
Public company		As defined in the Companies Act, no 71 of 2008
Responsibility		The state or position of having control or authority and being accountable for ones actions and decisions

Risk		Risk can be defined as uncertain future events that could influence, both in a negative and a positive manner, the achievement of the company's objectives It is the combination of the probability of an event and its consequence Risk is a condition in which the possibility of loss exists In some situations risk arises from the possibility of deviation from the expected outcome or event Risk arises as much from failing to capture business opportunities when pursuing strategic and operational objectives as it does from a threat that something bad will happen
	Event	Occurrence of a particular set of circumstances The event can be certain or uncertain The event can be a single occurrence or a series of occurrences The probability associated with the event can be estimated for a given period of time
	Probability	Extent to which the event is likely to occur Frequency (the property of an event occurring at intervals) rather than probability (the relative likelihood of an event happening) may be used in describing risk Degrees of believe about probability can be chosen as classes or ranks, such as rare/unlikely/moderate/likely/ almost certain, or incredible/im-probable/remote/occasional/ probable/frequent
Risk management		Risk management is the identification and evaluation of actual and po-tential risk areas as they pertain to the company as a total entity, followed by a process of either avoidance, termination, transfer, tolerance (accep-tance), exploitation, or mitigation (treatment)of each risk, or a response that is a combination or integration
Risk management process		The Risk Management Process entails the planning, arranging and controlling of activities and resources to minimise the negative impacts of all risks to levels that can be tolerated by stakeholders whom the board has identified as relevant to the business of the company, as well as to optimise the opportunities, or positive impacts, of all risks

	Cost of risk	Costs associated with: - Insurance premiums; - Self retained losses (incurred loss); - Uninsured losses; - Risk control expenses including safety, security, property conservation, and quality control programs, etc.; - Maintenance costs; - Machinery breakdown costs; - Consulting charges; - Training; - Environmental costs; and - Administrative costs (internal and external) including risk management department, internal claims staff, fees paid to brokers, risk management consultants, outside claims and loss control services
	Criteria	Terms of reference by which the significance of risk is assessed Risk criteria can include associated cost and benefits, legal and statutory requirements, socio economic and environmental aspects, the concern of stakeholders, priorities and other inputs to the assessment
	Key risks	Risks which the company perceives to be its most significant risks
	Key risk indicators	A metric that can be monitored and that has a correlation with one of the risk factors Indicators by which key risks can be easily identified
	Mitigation	Limitation of any negative consequence of a particular event
	Residual risk	The level of Risk remaining after risk treatment
	Risk acceptance	Decision to accept a risk The verb 'to accept' is chosen to convey the idea that acceptance has its basic dictionary meaning Risk acceptance depends on risk criteria
	Risk analysis	Systematic use of information to identify sources and to estimate the risk Risk analysis provides a basis for risk evaluation, risk treatment and risk acceptance Information can include historical data, theoretical analysis, informed opinions, and the concerns of stakeholders

	Risk appetite	The level of residual risk that the company is prepared or willing to accept without further mitigation action being put in place, or the amount of risk company is willing to accept in pursuit of value An company's risk appetite will vary from risk to risk Risk appetite is different from risk bearing capacity
	Risk assessment	Overall process of risk identification, risk quantification and risk evaluation in order to identify potential opportunities or minimise loss
	Risk avoidance	Decision not to become involved in, or action to withdraw from, a risk situation The decision may be taken based on the result of risk evaluation
	Risk bearing capacity	RBC is a prediction of the company's ability to endure losses and the effect such losses may have on the company's value and /or its ability to continue with its activities RBC is a monetary value which is used as a yardstick, measuring the maximum loss the company can endure, without exposing it to the point where its existence and survival is under threat, given an equivalent loss
	Risk communication	Exchange or sharing of information about risk between the decision-maker and other stakeholders The information can relate to the existence, nature, form, probability, severity, acceptability, treatment or other aspects of risk
	Risk control	Actions implementing physical risk management decisions Risk control may involve monitoring, re-evaluation, and compliance with decisions
	Risk estimation	Process used to assign values to the probability and consequences of a risk Risk estimation can consider cost, benefits, the concerns of stakeholders and other variables, as appropriate for risk evaluation
	Risk evaluation	Process of comparing the estimated risk against given risk criteria to determine the significance of the risk Risk evaluation may be used to assist in the decision to accept or to treat a risk
	Risk driver	The technical, programmatic and supportability facets of risk

	Risk financing	Provision of funds to meet the cost of implementing **risk treatment** and related costs In some instances, risk financing refers to funding only the financial consequences related to the **risk**
	Risk identification	Process to find, list and characterise elements of risk Elements can include source or hazard, event, consequence and probability Risk identification can also reflect the concerns of stakeholders
	Risk Manager / Group Risk Management / Risk Champion	An employee of who has the primary responsibility for advising on, formulating, overseeing and managing all aspects of a company's **risk management system** **AND** monitors the company's entire risk profile, ensuring that major risks are identified and reported upwards
	Risk matrix	The structure of numbers of levels of probability and consequences chosen against which to measure risk
	Risk optimisation	Process, related to a **risk** to exploit the risk opportunities, minimise the negative and to maximise the positive **consequences** and their respective **probabilities**
	Risk perception	Way in which a stakeholder views a risk based on a set of values or concerns Risk perception depends on the **stakeholder's** needs, issues and knowledge Risk perception can differ from objective data
	Risk profile	The company and its regions and functional areas, has an **inherent** and **residual** risk profile. These are all the risks faced by the company, ranked according to a **risk matrix** and indicated graphically on a matrix. The Risk Score may be determined by multiplying the frequency and severity of the risks, where these are indicated
	Risk reduction	Actions taken to lessen the **probability** negative **consequences** or both, associated with a **risk**
	Risk register	A formal listing of risks identified, together with the results of the **risk analysis, risk evaluation** procedures together with details of **risk treatment, risk control, risk reduction** plans

	Risk response	Process of selection and implementation of measures to modify risk The term "risk treatment" is sometimes used for the measures themselves Risk response measures can include treating, avoiding, optimising, transferring, terminating or retaining risk
	Risk retention	Acceptance of the burden of loss, or benefit of gain, from a particular risk Risk retention includes the acceptance of risks that have not been identified Risk retention does not include treatments involving insurance, or transfer by other means. There can be variability in the degree of acceptance and dependence on risk criteria
	Risk tracking	The monitoring of key risks over time to determine whether the level of risk is changing
	Risk transfer	Sharing with another party the burden of loss or benefit of gain, for a risk Legal or statutory requirements can limit, prohibit or mandate the transfer of certain risk Risk transfer can be carried out through insurance or other agreements Risk transfer can create new risks or modify existing risk Relocation of the source is not risk transfer
	Source identification	Process to find, list and characterise sources or root causes In the context of safety, source identification is called hazard identification
Share-based incentive scheme		A share-based incentive scheme is a form of remuneration which rewards employees according to the appreciation in value of real or notional equity holdings in the company. It may take a variety of forms, including that of an option or a conditional grant of shares subject to performance or other conditions. It is generally granted over a period of three or more years and may be settled by cash or by the issue of shares.
SOX		Sarbanes-Oxley Act, 2000
SRI		Socially Responsible Investments
Stakeholders		Any group affected by and affecting the company's operations
State owned company		As defined in the Companies Act, no 71 of 2008

Sustainability		Sustainability of a company means conducting operations in a manner that meets existing needs without compromising the ability of future generations to meet their needs. It means having regard to the impact that the business operations have on the economic life of the community in which it operates. Sustainability includes environmental, social and governance issues.
Transparent		Easy to understand or recognise; obvious; candid; open; frank
Triple context		The context in which companies operate - people, profit and planet
Ubuntu		A concept which is captured in the expression 'uMuntu ngumuntu ngabantu', 'I am because you are; you are because we are'. Ubuntu means humaneness and the philosophy of ubuntu includes mutual support and respect, interdependence, unity, collective work and responsibility
UN		United Nations
UNGC		United Nations Global Compact

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