

King IV Sector Supplements - Public Commenting

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Filled Monday, May 16, 2016

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Welcome to the official King IV Sector Supplement public commenting platform. After you have downloaded and reviewed the draft King IV Sector Supplements here [if this link does not open, please copy and paste the following into your browser: [<http://iodsa.co.za/page/KingIVsectorsupp>], you will be able to enter your comments using this platform. This is the second phase of the public commentary process. Phase one invited comment on the whole of the King IV Report, bar the Sector Supplements. This platform will remain open in respect of phase 2 for two months from 11 May 2016 to 11 July 2016 Commenting terms and conditions Please note that this process is open and transparent. All comments submitted will be available for public view at <http://www.iodsa.co.za/page/KingIVsectorlibrary> and NO anonymous comments are permitted. Comments received are added to the library for public viewing weekly together with the identity of the individual or organisation on behalf of whom the submission is made. Only comments submitted through this platform will be considered for the finalisation of the King IV Report.

Do you agree to the King IV commenting terms and conditions?

Yes

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Personal Details Section:

***Title:**

Ms

***First Name:**

Leigh

***Last Name:**

Roberts

***I am commenting on behalf of:**

An organisation

***Name of organisation:**

Integrated Reporting Committee (IRC) of South Africa

***Capacity within organisation:**

Chief Executive

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INTRODUCTION TO SUPPLEMENTS

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Add your comments on the Introduction to Supplements here:

GENERAL NOTE: The comments to the sector supplements largely relate to the aspect of integrated reporting included in the sector supplements and should be read with the Integrated Reporting Committee of South Africa (IRC)'s general comments on the Draft King IV Report, as previously submitted.

The principles of Draft King IV apply to the organisations covered in the sector supplements. The proportionality approach adopted by King IV allows these organisations to determine the recommended practices suitable to the organisation in applying the principles. The IRC is pleased to see that all the sector supplements include the suggestion to consider the practices with regards to disclosure and reports under Principle 2.2. The IRC believes that preparing an integrated report is an appropriate reporting mechanism for many different types of organisations. The forward-looking and holistic nature of the report can be useful to all the stakeholders of an organisation. Further, the preparation of the report will be helpful to the organisation itself by assisting it to apply integrated thinking in the consideration and management of all the capitals used and affected by the organisation.

However, our previous comments on issues regarding integrated reporting apply, particularly as regards promoting greater consistency and alignment with the International <IR> Framework and highlighting the need for frank disclosure on the negative impacts on the capitals (i.e. that in reflecting on 'value creation' one needs to equally consider where value is destroyed / undermined).

It is anticipated that the supplements will be useful in assisting organisations other than companies to practically apply the principles and recommended practices of King IV. It is noted, however, that as there are only five organisation types covered in the supplements, requests for guidance could arise about organisations that are not specified. For example, what should be applied from a governance perspective for private for-profit companies with a public interest score less than 350 or a state-owned entity that is not a Schedule 2 or 3 entity? Further, a category that could be considered worthy of its own sector supplement is that of Higher Education Institutions (HEIs).

Although dealt with in the specific comments in the respective supplements, a general comment is that specific guidance under “performance and reporting” should be considered, as well as application as to how each sector organisation could approach specific reporting aspects such as:

- Annual reporting (e.g. to whom the report is made available (e.g. for SMEs) and how the reports are approved and tabled (e.g. public sector organisations)
- Application register (e.g. is it expected that SMEs would make this publicly available?)
- Remuneration reports (e.g. how do SMEs apply these requirements?)

(No response)

SUPPLEMENT FOR MUNICIPALITIES

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Add your comments on the Supplement for Municipalities here:

Paragraph 2 – Scope: For the benefit of a general audience it may be useful to briefly explain what constitutes a “category A, B and C municipality” and the rationale for including only these categories in the supplement’s scope. Guidance for following good governance practices could also be provided for municipalities that fall outside this scope.

(No response)

Paragraph 4.3 – Performance and reporting: The method/medium of distribution and the intended users of annual or periodic reports could be elaborated on together with the purpose of reporting to such stakeholders and how they may use the information provided by such reports. The alignment of reporting against the implementation and performance against the Integrated Development Plan is well put and an important part of this supplement.

(No response)

SUPPLEMENT FOR NON-PROFIT ORGANISATIONS

SUPPLEMENT FOR NON-PROFIT ORGANISATIONS

Add your comments on the Supplement for Non-Profit Organisations here:

Some NPOs who already prepare integrated reports have said that the integrated report is useful as a funding document because of its well-rounded nature in covering strategy, risks, performance against objectives, and outcomes.

Paragraph 1 – The macro view: 4th bullet point refers to “helping to enhance the accountability and transparency of government and local government programs and of officials” – this should be extended to accountability within the private sector.

Paragraph 4.1 – Proportionality considerations: The illustration of the practical application of proportionality to application practices is useful. Perhaps consider adding that the disclosure of the rationale for and extent of applying proportionality measures is recommended.

Paragraph 4.3 – Performance and reporting: The method/medium of distribution and the intended users of annual or periodic reports could be elaborated on together with the purpose of reporting to such stakeholders and how they may use the information provided by such reports. For example, intended users of such reports would include beneficiaries, donors and oversight regulators.

Paragraph 4.4 – Governing structures and delegation: Role of governing body – page 6 paragraph 2 – lists the six areas a governing body should focus on in order to demonstrate effective leadership. This could be extended to include a seventh aspect along the lines of “Guiding and monitoring the most effective and value-add application of funds raised”, to the extent that this may be possible considering reporting formats may be dictated by the funding contract or the funder directly.

(No response)

SUPPLEMENT FOR RETIREMENT FUNDS

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Add your comments on the Supplement for Retirement Funds here:

It is noted that the FSB has previously issued Circular PF no. 130 – Good governance of retirement funds. Consideration could be given to acknowledging this circular with any disparities dealt with in the supplement.

Paragraph 5.2 – Performance and reporting: The supplement deals with the retirement fund as a preparer of performance reporting, as it does, but this should extend to retirement funds being users of integrated reports in making investment and value decisions with regard to their investments. This can be linked specifically to paragraph 1b under Principle 1 of the CRISA Code. To this end, they would encourage and even request quality integrated reports to support their investment and value decisions in line with the principles of King IV.

(No response)

SUPPLEMENT FOR SMALL AND MEDIUM ENTERPRISES

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Add your comments on the Supplement for Small and Medium Enterprises here:

Paragraph 2 – Scope: The rationale for the definition of a SME being defined as a private for-profit company with a public interest score >350 should be explained. Further, general guidance for companies falling outside of this range (including for e.g. former close corporations) could be considered.

(No response)

Paragraph 4.1 – Proportionality considerations: As per our comments on NPOs, the illustration of the practical application of proportionality to application practices is useful. Perhaps consider adding that disclosure of the rationale for and extent of applying proportionality measures should be recommended, especially to the extent that it may not be apparent from the nature of the SME concerned.

(No response)

Paragraph 4.4 – Performance and reporting: While the supplement is specific in referring to the connection between sustainability and the business in 4.4, it is suggested that it could be more explicit in making reference to the benefits specifically of integrated reporting (not just reporting), highlighting that this is a more strategic and focused form of communication that SMEs should seek to embrace. The focus on proportionality and the reference only to ‘reporting’ may seem to suggest that integrated reporting is not needed for SMEs.

Also, the method/medium of distribution and the intended users of annual or periodic reports could be elaborated on together with the purpose of reporting to such stakeholders and how they may use the information provided by such reports. This is particularly important for SMEs as they are not public interest entities, such as NPOs, public sector entities, listed entities and retirement funds. For example, intended users of such reports could include board, management, employees, banks and future investors / lenders. Also, cost-benefit considerations will come into play, as well as the level of expertise and time required to prepare the report.

(No response)

SUPPLEMENT FOR STATE-OWNED ENTITIES

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Add your comments on the Supplement for State-Owned Entities here:

Paragraph 2 – Scope: For the benefit of a general audience it may be useful to briefly explain what constitutes a “PFMA schedule 2 and 3 entity” and the rationale for including only these categories in the supplement’s scope. Guidance for following good governance practices could also be provided for state-owned entities that fall outside this scope.

(No response)

Under Paragraph 2.1, it is suggested that the discussion in the second paragraph include that consideration be given to the negative and unintended impacts of performance and any related amelioration activities. As stated in the IRC’s previous submission, value creation is generally considered to cover the positive and negative effects on the capitals.

(No response)

Paragraph 4.1 – Leadership, ethics and corporate citizenship: The last paragraph on page 2 reads “Furthermore SOEs are funded from the tax contributions by private and corporate citizens and as such are accountable for certain responsibilities” Many SOEs are self-funded through profits generated from operations and do not rely purely on tax contributions although initial start-up and expansion funding would be provided by the state. In some cases SOEs actually provide dividend returns to the state. Consideration ought to be given to modifying the wording to take account of the self-funding and even investment return scenarios that exist.

It is not only by virtue of funding by tax contributions that SOEs are accountable but also through their service delivery and social and economic mandates that they are accountable to stakeholders.

(No response)

Paragraph 4.2 – Performance and reporting: Page 3 second last paragraph reads “It is incumbent on the governing body of an SOE to be pro-active in obtaining clarity on strategic objectives, targets and key performance indicators. Even where not required in terms of legislation, it is recommended that a written agreement between the entity as represented by its governing body and the shareholder be entered into to give effect to this.” Certain categories of SOEs are required to submit and agree a Shareholder Compact, Corporate Plan and Pre-determined objectives that deal with inter alia strategic objectives, targets and key performance indicators. These practices and the entities they apply to should be mentioned in the supplement, as well as the practice of reporting against such plans as set out with municipalities reporting against their IDP.

(No response)

Paragraph 4.4 – Governance functional areas: The concept of a “shared services model” in the context of governance functional areas could be explained together with an example.

(No response)

SURVEY QUESTIONS

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How much do you agree or disagree with the following statements, please give a reason for your answer.

You may need to scroll to the right to see all the options, depending on the size of the screen you are using.

Please provide comments supporting your rating and suggestions for enhancement.

The Sector Supplements provide adequate guidance and explanation of how the recommended practices in the Code could be customised to meet the situational specifics of the various sectors	Agree However, while the supplements may be helpful in contextualising the implications of the King IV Principles for different types of organisations for report preparers, they are still left with adapting the more than 200 Recommended Practices in a scalable manner. Also, requests for guidance could arise from other sectors not covered as a result of the precedent set by the supplements.
The supplements illustrate the general approach to the application and interpretation of the Code in such a way that it enables users to formulate their own sound solutions to corporate governance challenges	Agree While the supplements may be helpful in contextualising the implications of the King IV Principles for different types of organisations for report preparers, they are still left with adapting the more than 200 Recommended Practices in a scalable manner. Also, requests for guidance could arise from other sectors not covered as a result of the precedent set by the supplements.
The King IV Sector Supplements connect and reconcile the King IV Code and legislation applicable in the particular sectors	Agree The sector supplement concept is good in that it assists with linking the King Code to a variety of different types of organisations. The supplements assist with the application of the Code Principles when different terminology applies. It is less clear whether it directly connects or reconciles with applicable legislation. Although it is clear that the Code can co-exist with other regulatory requirements, it remains a voluntary Code and widespread adoption could be influenced in instances where the regulatory regime supports or enables the principles of King IV.

END

Have you added all the comments you would like to add? If not please click on the section you would like to add comments to. Once you have done this you may return to this page and submit your comments.