

LEARNING UNIT 4 – THE KING IV REPORT ON CORPORATE GOVERNANCE



Duration: 5 hours 10 minutes

Your time should be divided between two aspects:

- **Obtaining the required knowledge**
This entails working through this learning unit. It is important to note that a significant part of this learning unit has been covered in your undergraduate studies. Since KING IV Report on Corporate Governance was covered in your undergraduate studies (it is assumed knowledge), we allow some time in this LU to refresh your memory and work through some notes and questions to assist in honing your critical thinking and decision-making skills. If the time allowed is not enough, you will have to refresh your memory regarding sections you already covered in your prior studies **in your own time.**
- **Application of knowledge**
This entails the completion of the self-assessment questions included in this learning unit. After completion of the learning unit, you will have the opportunity to test your knowledge by completing some questions which will comprise of integrated activities covering other learning units, these integrated questions will be included in your additional resources folder.

The following time allocation is recommended:

KING IV		Minutes
4.1	Introduction	1
4.2	Learning Outcome and Assessment Criteria	1
4.3	Exam Technique	12
4.4	Self-assessment question 4.1	52
4.5	Announcements	5
4.5	Lectures	240
	Total	311



4.1 INTRODUCTION

By now, you should be familiar with the concept of “corporate governance”, not only from your studies leading up to this point, but also from watching the news on television, reading the newspapers, browsing the internet etc. Unfortunately, companies have been in the news for the wrong reasons, displaying a lack of good “corporate governance”!

Companies are an integral part of society (as corporate citizens) and we are all linked to companies in various ways, ranging from buying shares in a company to living in the same city or neighbourhood that a company operates in. It is for this reason that companies should operate in a manner that is responsible to society. King IV aims to promote a culture of good corporate governance in the South African environment.



4.2 LEARNING OUTCOME AND ASSESSMENT CRITERIA

The content of this learning unit is based on the following learning outcome and assessment criteria:

Learning outcome	Assessment criteria
Exercise KING IV corporate governance principles in practical situations.	Discuss and apply the KING IV corporate principles in given case studies.



4.3 EXAMINATION TECHNIQUE

- **Corporate Governance and King IV:**

When answering a question on the King IV report on governance, it is important to identify all the principles and recommended practices present in the scenario. While SAICA permits the use of the King IV report during exams as part of their open-book policy, it is strongly recommended to be well-versed with the document. This familiarity will help you quickly identify the relevant principles and practices.

- **Exam Frequency:**

Corporate governance remains a highly topical subject and is examined regularly.

- **King IV Familiarity:**

Knowing the King IV report allows you to effectively locate the principles and practices applicable to a scenario. It is not enough to merely state the theory; you are required to apply the theory to the given scenario. Although it is not mandatory to list the principles and practices by number, doing so reflects good exam technique.

- **Integration with Other Topics:**

Corporate governance often integrates with various topics. When preparing for tests and examinations, always think about how King IV aspects can connect to other auditing topics, especially the Companies Act, as well as concepts from your other subjects.

- **Examination Techniques:**

Adopting strong exam techniques is essential. For example, when identifying non-application of King IV, avoid discussing areas where King IV has been correctly applied—a common error students make. Properly analyze the scenario, plan your answer, and clearly structure it into distinct sections to improve your chances of earning marks.

- **Avoiding Assumptions:**

Do not make assumptions beyond the facts provided unless explicitly instructed to do so. Assumptions waste valuable time and often fail to score marks.

- **Effective Study and Answering Approaches:**

To study corporate governance effectively, establish a solid theoretical foundation and practice answering as many questions as possible. Always plan your answer thoroughly, using the following framework:

- **The 5 P's:**

Proper

Planning

Prevents

Poor

Performance

Maximizing Marks:

Note that more marks are available than what is required. Develop the habit of offering more content than the minimum required to enhance your scoring potential. Always aim to provide a comprehensive answer based on your analysis of the scenario and include practical application of the identified principles and practices.

4.4 Self-assessment Question

Question 4.1

20 marks

Activity	Estimated Time		
	Reading and Writing	Marking and review	Total
20 marks	40 minutes	12 minutes	52 minutes

Please note the “comments” provided in brackets below, links to the corresponding number in the suggested solution. It is provided to assist you in making the link between the given information and the suggested solution.

You are an audit senior at Malemela & Company (Malemela), a firm of Registered Auditors and have been assigned to the 30 June 2023 year end audit of Bizniz (Proprietary) Limited (Bizniz). Bizniz imports a wide range of photocopying, facsimile and printing machines.

During the review of the audit file, you became aware of the following:

2. Statutory matters

A second-year trainee on the audit performed a statutory review of Bizniz and prepared working paper B1/1.

Client	Bizniz (Pty) Ltd	Prepared by	Second-year trainee	B1/1 Page 1 of 1
Year end	30 June 2023	Reviewed by	KT	
Subject	Statutory matters			

5. Board of directors **(comment 1.1)**

- Karen Wells – CEO and chairperson **(comment 1.2)**
- Bob Cilliers – Finance director
- Violet Mguni – Operations director
- Jane Witfield – Marketing director*
- Christo Van Tonder – Human resources director
- Samuel Jackson – Professor in the Auditing Department at Unisa*
- William Smith – Government official (only attends board meetings)

* Appointed during the current year. Lead independent director.

Bob, Violet and Christo have served on the board for the past three years.

The audit committee is responsible for the evaluation of the board's performance **(comments 1.3 and 1.4)**. These performance evaluations form part of the determination of the board's development and of the training needs of directors.

The board meets as and when required, and the board committees, as discussed below, meet annually.

6. Internal audit

- Internal audit reviews the implementation of the risk management plan on an annual basis **(comment 2.1)**.
- Jane Witfield heads the Internal Audit Department **(comment 2.6)** and reports to Bob Cilliers, the finance director, annually **(comments 2.2 and 2.5)**.
- Internal Audit identifies all the potential risks that Bizniz faces and makes decisions on how these risks will be mitigated **(comments 2.3 and 2.4)**.
- Internal Audit is responsible for the preparation of the financial statements **(comment 2.7)**.

7. Committees

Audit committee **(comments 3.1 and 3.2)**

- Violet Mguni
- William Smith
- Bob Cilliers

During the meeting of the audit committee held on 15 May 2023, it was decided that Bizniz would acquire shares in Africa Coal, a coal mining company listed on the JSE Ltd. A detailed analysis of the coal-mining sector supported this decision **(comment 3.3)**.

Risk committee **(comments 4.1 and 4.2)**

- Christo van Tonder
- Samuel Jackson

The risk committee was dismissed during the year **(comment 4.3)**.

During the current financial year, the company had only the above-mentioned board committees in place **(comment 4.3)**.

REQUIRED	Marks
Based on your review of working paper B1/1, comment on the information presented in terms of the requirements of King IV.	20

(Unisa Test – adapted)

SUGGESTED SOLUTION

3. Board of directors

3.1 The board should comprise a majority of non-executive directors. The majority of non-executive directors should be independent. **(principle 7, recommended practice 8)** (1)

- All the non-executive directors are independent, and this complies with the King IV code. (1)
- There are five executive directors and two non-executive directors, and therefore not a majority of non-executive directors. (1)

3.2 Karen Wells fulfils the roles of both CEO and chairperson **(principle 2.16, recommended practice 31)**. (1)

3.2.1 These roles should be fulfilled by different individuals. (1)

3.2.2 The chairperson should be an independent non-executive director. (1)

3.3 The board should assume responsibility to evaluate its own performance, not the audit committee **(principle 9, recommended practice 71)**. (1)

3.4 The lead independent non-executive director should evaluate the chairperson **(principle 9, recommended practice 71)**, and the board should evaluate the CEO **(principle 9, recommended practice 82)** (2)

4 Internal audit

4.1 The board should be responsible for the review of the company's risk management plan, not internal audit **(principle 11, recommended practice 3)**. (1)

4.2 In terms of sound corporate governance principles, Jane Witfield should report **administratively to the CEO and functionally to the audit committee**. At Bizniz, **Jane reports to Bob Cilliers, the finance director** **(principle 15, recommended practice 56)**. (2)

4.3 The board should be responsible for the governance of risk, as a result it should identify all potential risks that Bizniz faces and decide on how these risks will be mitigated, not internal audit **(principle 11, recommended practice 1)**. (1)

4.4 Jane must also have access to the chairperson of the board and audit committee respectively **(principle 15, recommended practice 53)**. (1)

4.5 The head of internal audit is the marketing director and may not have sufficient experience and knowledge **(principle 15, recommended practice 52)**. (1)

4.6 Management should be responsible for the preparation of the annual financial statements (AFS), not internal audit **(principle 5, recommended practice 9)**. (1)

5 Audit committee

5.5 In terms of King IV, the audit committee should comprise at least three members; Bizniz has three members, which complies with the King IV Code **(principle 8, recommended practice 46)** (1)

5.2 All members should be independent non-executive directors **(principle 8, recommended practice 56)**; two members of the committee are not independent, non-executive directors, as they are involved in the day-to-day running of the business. (2)

5.3 As part of risk management, the audit committee cannot make decisions on the acquisition of shares in Africa Coal. This should be the responsibility of the board (with the approval of shareholders). (1)

6. Risk committee

6.1.1 The risk committee should consist of a minimum of three members **(principle 8, recommended practice 46)**. (1)

6.1.2 The composition of the risk committee does not comply with sound corporate governance, as it only has two members. (1)

6.2 The members can be executive and non-executive directors **(principle 8, recommended practice 64)**. (1)

6.3 Dismissing the risk committee can be seen as an irresponsible act by management and it does not comply with corporate governance due to the following reasons: (1)

6.3.1 The risk committee is an important part of integrated reporting that allows the company to report to all stakeholders on the sustainability of the company. (1)

6.3.2 Part of this is commenting on the major risks facing the company and explaining how to deal with these risks. (1)

6.3.3 King IV requires that the company establish audit, risk, remuneration, nomination, social and ethics committees **(various recommended practices)**. (1)

6.3.4 The company did not comply with this requirement, as it only had an internal audit and audit committee and dismissed the risk committee. (1)

Available 27
Maximum 20

4.5 Announcements

Please refer to the **Additional Resources** folder for Learning Unit 4 for some additional resources on the content of this Learning Unit.

4.6 Lectures

Lectures will be held during the year. Additional learning material and questions will also be loaded under the **Additional Resources** folder. Refer to the **Announcements** for additional information on lectures.