

# Mondial Case Study: All Sectors



## KING IV

### Client Challenge

When an organisation's external environment changes, uncertainty reigns. This is especially true when the change is a legal or regulatory one. Although released on 1 November 2016, the King IV Report on Corporate Governance for South Africa 2016, is such a change that many of our clients have woken up to in 2017. It applies to any organisation with a financial year starting 1 April 2017 and later, wishing to subscribe to it. With our media headlines seemingly reporting on a governance or risk management failure on a weekly basis at the moment, a number of our clients, including dual listed entities, NPOs, NGOs and public entities have been asked by their governing bodies<sup>2</sup> to ensure that their risk management processes and practices are reviewed and that any gaps against the risk management requirements of King IV are identified and plans put in place to close the gaps, within 12 months from their current financial year end.

### Mondial Consultants' Solution

With over 15 years of risk management experience under our belt, we have managed to quickly and efficiently devise an approach that assists in performing a gap analysis of a client's risk management (and increasingly also their combined assurance, sustainability, compliance and GRC) frameworks, policies, procedures, guidelines and any other document that defines the who, when, what, and how they intend to do risk management but also to evaluate its application. With any specific client, we therefore, within a short period of time determined whether current INTENT and current PRACTICE were indeed reflective of the King IV requirements and expectations or not. Based on any gaps identified, we then formulated a 12 months strategy that informed how and when the gaps can be closed, by whom.

In performing this analysis, the gaps identified to date have typically related to the following factors:

- How does the governing body move from 'an apply or explain' principle to 'an apply AND explain' model, considering the concept of proportionality.



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Contact us for any advice or assistance in the following areas:

- Enterprise Risk Management
- Emergency and Business Continuity Management
- **Governance and Compliance**
- Risk Management Software Solutions
- Internal Audit
- Corporate Secretarial
- Environmental Risk Management
- Sustainability Risk Management
- Human Failure Analysis

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- How does senior management and the governing body ensure that risk management is indeed linked to strategy and business planning, and is 'continuous' as required by King IV. Moving many organisations from the 'once a year risk analysis workshop' syndrome to a strategy that is risk based and risk weighted/ risk stress-tested and a set of business plans that are explicitly understood to be risk heavy- unlikely to be achieved- or risk light –possibly too lenient.
- How does the governing body ensure that it takes accountability and responsibility for the identification and management of all risks - via executive management. In part by ensuring that risk content relevant to 'a capital' (per the international integrated reporting framework's six capitals) becomes an agenda item on every Board sub-committee's agenda (human capital risks would be addressed at a remuneration/ social and ethics or HR committee whilst natural capital risks would go to a HSE committee). Risk management is therefore no longer the sole fodder of the risk committee, the latter concerns itself with risk management processes, selected risk content is now absorbed and informs all Board sub-committees' deliberations.
- As the outcomes of King IV are clearly a desired state of ethical culture, good performance, effective control and legitimacy, how does risk management fit into this process and how does risk management help achieve these outcomes? In many instances, we identified the need to consolidate and integrate a number of activities and functions, including financial and non-financial reporting, risk management, combined assurance, ethics and compliance and others to make the process more seamless for the organisation in question.



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- King IV states that “The governing body should evaluate and agree the nature and extent of the risks that the organisation should be willing to take in pursuit of its strategic objectives. It should approve in particular:
  - a) The organisation’s risk appetite, namely its propensity to take appropriate levels of risk; and
  - b) The limit of the potential loss that the organisation has the capacity to tolerate.”

Many of our gap analyses and their outcomes end up helping management and the governing body set its risk appetite and tolerance, in everyday decision making scenarios for not only financial parameters but also those soft risk aspects of reputation, environmental protection, product safety, employee safety and others.

### Impact on Client’s Business

Although many consider that alignment to King IV will enable the governing body and management to claim ‘compliance’, for us and many of our clients, compliance is but only a step in the journey. Applying a good practice standard or code or guideline is about changing the culture and ethos of the organisation and it is not about compliance or reporting, the latter two are secondary prizes.

Although in its early stages of implementation, the results of the King IV risk management alignments we have been involved in to date have managed to open the eyes of many executives and governing body members and have provided them with relevant information that supports the decision making process. Comments and feedback received to date include:

- We now see risk not as negative and all things bad, we see uncertainty as offering us opportunities, if we think and behave in the right way.
- We now have direct access to (risk) information that can tell us ahead of time what is the REAL chance of achieving our strategic and business objectives.
- We now realise that our strategic objectives are as much about flexibility and agility and responding to our external environment, rather than being a static, fixed set of goals and aspirations that we tirelessly slave towards for the next five years, without due consideration of what is going on inside or outside the business.
- We now understand how our capital expenditure is related to our risks and the achievement of our strategic objectives.



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- And our favourite....., risk information is now used to inform what we do every time we make a decision, it's discussed in Executive Committees, in Management Committees and at every Board sub-committee.

In real terms, we have found that a logical, well aligned set of risk management processes and mechanisms, reduces costs and resources, offers opportunities to break down silos and makes the business that has embarked on this journey more agile but also more robust to the impact of changes. In times of harsh political, economic, social and other realities, there is less and less room for error. Aligning yourself to the risk and other requirements of King IV, not for compliance, but for performance, WILL help reduce variances in strategic and operational performance.

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<sup>2</sup>Historically referred to as 'the Board'

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