

**LEARNING
UNIT 4**

**THE KING V CODE ON CORPORATE
GOVERNANCE FOR SOUTH AFRICA
(2025)**



LEARNING OUTCOME AND ASSESSMENT CRITERIA

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

Learning outcome	Assessment criteria
<p>On completion of this learning unit, students should be able to:</p> <p>Analyse and apply the King V Code on Corporate Governance for South Africa (2025) in practical scenarios. • Evaluate ethical and effective leadership by the governing body with reference to governance outcomes, namely:</p> <ul style="list-style-type: none">• Ethical culture• Performance and sustainable value creation• Conformance and prudent control• Legitimacy • Integrate King V principles with relevant legislation (including the Companies Act 71 of 2008) when assessing governance practices.	<p>Learners must demonstrate the ability to:</p> <ul style="list-style-type: none">• Identify applicable King V principles in a given scenario.• Assess whether recommended practices have been applied using the apply-and-explain approach.• Evaluate whether governance practices result in the achievement of King V governance outcomes.• Critically analyse governance failures and propose corrective actions aligned with King V.



ASSUMED PRIOR LEARNING

It is assumed that students have prior knowledge of:

- Corporate governance principles from undergraduate auditing studies.
- The Companies Act 71 of 2008 (selected sections relating to directors, committees and accountability).
- Ethical leadership concepts and professional conduct standards.

If you wish to refresh your knowledge, you may refer to your undergraduate material, prescribed textbook and the SAICA Handbooks. For your convenience, we provide textbook references, **but it is your responsibility to revise and work through (if needed) the content of this learning unit as it will not be repeated in this learning unit.**

Prescribed and reference material

- **SAICA Student Handbook 2025/26 – latest edition (Volume 2B): King V Code on Corporate Governance for South Africa (2025)**



Note: King IV references are no longer applicable. All governance analysis must be based on **King V**.

4.1 INTRODUCTION

Corporate governance remains a critical pillar of organisational sustainability and public trust. The **King V Code (2025)** replaces King V and introduces a stronger **outcomes-based, systems-value and integrated-thinking approach** to governance.

King V emphasises that governance quality is judged not merely by compliance with recommended practices, but by whether these practices **result in the achievement of governance outcomes** within an organisation's economic, social and environmental context. Organisations are regarded as integral components of broader socio-economic systems, and governing bodies are expected to exercise ethical and effective leadership that contributes to sustainable development and long-term value creation.



COMMENT

You should familiarise yourself with the content of the King V Report. . By just browsing through the principles and the recommended practices, you will struggle to identify all the related issues and link them with the applicable principles and recommended practices.

King V is included in the *SAICA student handbook*, volume 2B. This is good news, as in terms of the open-book policy of SAICA, you may have this book with you when writing a test or examination. This will also make it easier when answering questions. However, because King V is an open book, you can also expect a greater focus on application thereof in the questions. It is therefore of vital importance to ensure that you are able, firstly, to identify the related principles you are dealing with as discussed in part 5 of the King V Code, secondly, link them with the applicable recommended practices and, lastly, make them applicable to the scenario.



EXAMINATION TECHNIQUE

- Please note that when a question refers to the term "corporate governance", it implies that you must consider King V. In addition, you may need to consider corporate governance issues arising from other sources (e.g. the Companies Act, Insider Trading Act, etc.).
 - Corporate governance is very topical and will therefore be examined on a regular basis.
 - As mentioned earlier in this study unit, you have the King V document at your disposal when writing a test or examination. Therefore, ensure you are familiar with the content of the document to enable you to find the relevant sections without wasting too much time.
 - Corporate governance can be integrated with more than one topic. In preparing for tests and examinations, always envision how the aspects from King V can be linked to other topics within auditing (especially with the Companies Act), as well as with your other subjects.
 - Good examination technique includes reading carefully what is required of you. If you are required to identify instances of **non-application** of King V, do not waste time by mentioning instances where the entity in question has applied King V (a common mistake that students make).
 - It is very important that you do not make assumptions from the facts given to you, except when you are instructed to do so. By making assumptions, you are wasting valuable time by providing information that will not earn you marks.
 - As with any of the other topics in auditing, the best way to study this section on corporate governance is to establish a good theoretical basis and then to attempt to answer as many questions as possible.
- (Source: Adapted from *Dynamic auditing*; 12th Edition; Marx, Van der Watt, Bourne)**

Outcomes-based governance

King V uses an **outcomes-based approach to governance**. This means that good governance is not judged only by whether rules and policies exist, but by whether they **actually lead to good results in practice**. The focus is therefore on *what governance achieves*, not just on what is written on paper

King V identifies **four governance outcomes** that every organisation should aim to achieve:

1. Ethical culture

An ethical culture exists when the organisation consistently does the *right thing*, even when no one is watching. This starts with the governing body and senior leadership setting a strong ethical example. When leaders act with integrity, fairness and accountability, these values filter through the organisation and guide how employees behave and make decisions. Ethical culture goes beyond legal compliance and focuses on values-driven conduct

2. Performance and sustainable value creation

This outcome focuses on how the organisation achieves its goals while remaining sustainable in the long term. King V emphasises that performance should not be measured only in terms of profit, but also in terms of how the organisation impacts the economy, society and the environment. Governing bodies are expected to ensure that the organisation creates value not just today, but also in the future, without harming stakeholders or depleting critical resources

3. Conformance and prudent control

Conformance and prudent control relate to how well the organisation complies with laws, regulations and internal policies, while also managing risks responsibly. King V highlights the importance of effective internal controls, risk management and compliance systems to protect the organisation and its stakeholders. Good governance requires disciplined decision-making and oversight to prevent fraud, errors and excessive risk-taking

4. Legitimacy

Legitimacy refers to whether the organisation is viewed as trustworthy and responsible by its stakeholders and society at large. An organisation is legitimate when it operates transparently, treats stakeholders fairly and acts as a responsible corporate citizen. King V promotes a stakeholder-inclusive approach, recognising that organisations depend on public trust and social acceptance to operate successfully over time

In King V, **recommended practices support principles**, and **principles lead to governance outcomes**. An organisation cannot claim good governance merely because it follows rules; it must be able to show that these four outcomes are being achieved in reality

.4.2 Apply and explain

Under King V, organisations must:

- Apply all principles on a universal basis.
- Explain any deviation from recommended practices.
- Conclude whether governance outcomes have been achieved.

This represents a shift away from a compliance-driven mindset toward substance over form.

4.3 KING V PRINCIPLES (OVERVIEW)

The King V Code consists of 13 principles, grouped around key governance domains:

1. Leadership
2. Ethics
3. Strategy, performance and sustainable value creation
4. Reporting
5. Composition of the governing body
6. Committees of the governing body
7. Appointment and delegation to management
8. Risk
9. Compliance
10. Data, information and technology
11. Remuneration
12. Assurance
13. Stakeholders

All principles are universally applicable, regardless of organisation size or sector, subject to proportionality.

4.4 EXAMINATION TECHNIQUE

- References to corporate governance imply application of King V.
- Students must link facts in the scenario to specific King V principles and recommended practices.
- Marks are awarded primarily for application and reasoning, not reproduction of theory.
- Where required, governance issues must be integrated with relevant legislation (e.g. Companies Act, labour law, ethics).
- Do not discuss compliant practices unless explicitly required.

4.5 LEARNING ACTIVITIES

All learning activities, scenarios and solutions must be interpreted and answered with reference to King V.

When responding to questions, students should:

- Identify the relevant King V principle(s).
- Explain whether recommended practices were applied.
- Assess the impact on governance outcomes.
- Conclude on governance effectiveness.

4.7 CONCLUSION

This learning unit equips students to analyse and apply King V in complex, real-world governance scenarios. Mastery of King V is essential for professional judgement in auditing, assurance and governance-related engagements.

4.8 LEARNING ACTIVITIES

After you have read the sections set out above, complete the following two comprehensive activities:



Activity 4.8.1

Activity 4.9.1	Estimated time			
	Reading	Writing	Marking and review	Total
20 marks	6 minutes	30 minutes	15 minutes	51 minutes



Please note that the “comments” provided in brackets below, are linked to the corresponding number in the suggested solution. They are 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 2016 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:

1. Statutory matters

A second-year trainee on the audit performed a statutory review of Bizniz and prepared

Client	Bizniz (Pty) Ltd	Prepared by	Second-year trainee	B1/1 Page 1 of 1
Year end	31 December 2025	Reviewed by	KT	
Subject	Statutory matters			

1. 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 resource 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.

2. 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).

3. 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 2016, 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).

(Unisa Test – adapted)

REQUIRED	Marks
Based on your review of working paper B1/1, comment on the information presented in terms of the requirements of King V. (Note: compliance and non-compliance)	20

SUGGESTED SOLUTION

1. Board of directors

1.1 Composition of the governing body

King V – Principle 5: Composition of the governing body

The governing body should comprise a majority of non-executive members, the majority of whom should be independent. *(Recommended Practices 29–31)* (1)

- Bizniz has five executive directors and only two non-executive directors, which means the board does not comprise a majority of non-executive members. → Non-compliance with King V. (1)
- Although the non-executive directors appear to be independent, the overall composition requirement is not met. (1)

1.2 Chairperson and CEO roles

King V – Principle 5 (Chairperson and lead independent member)

Karen Wells fulfils the roles of both CEO and chairperson. *(Recommended Practices 45–49)* (1)

- The roles of chairperson and CEO should be separated to ensure a balance of power. (1)
- The chairperson should be an independent non-executive member of the governing body. (1)

This arrangement represents non-compliance with King V.

1.3 Performance evaluation of the governing body

King V – Principle 1: Leadership

The governing body should be accountable for evaluating its own performance, including that of its committees, chairperson and individual members. *(Recommended Practices 6–9)* (1)

- At Bizniz, the audit committee evaluates the board's performance, which is not appropriate.
→ This responsibility rests with the governing body itself, possibly delegated to a nomination governance committee, not the audit committee. (1)

1.4 Evaluation of chairperson and CEO

King V – Principle 1

- The chairperson's performance should be evaluated by the governing body, typically led by the lead independent member. (1)
- The CEO's performance should be evaluated by the governing body, led by the chairperson. (1)

(Recommended Practices 6–9)

Bizniz's current arrangements do not reflect these requirements.

2. Internal audit

2.1 Governance of risk

King V – Principle 8: Risk

The governing body is responsible for the governance of risk, including oversight of the risk management framework. *(Recommended Practice 66)* (1)

- Internal audit should provide assurance over risk management, not review and own the risk management plan. → Bizniz is non-compliant. (1)

2.2 Reporting lines of internal audit

King V – Principle 12: Assurance

The head of internal audit should:

- report functionally to the audit committee, and (1)
- report administratively to the CEO. (1)

(Recommended Practices 59–62)

At Bizniz, Jane Witfield reports to the finance director, which impairs independence.

→ Non-compliance with King V.

2.3 Identification and mitigation of risks

King V – Principle 8

- The governing body, supported by management, should identify risks and determine responses.
- Internal audit should only evaluate the effectiveness of risk management processes.

(Recommended Practice 66) (1)

Bizniz incorrectly assigns this responsibility to internal audit.

2.4 Access to the governing body

King V – Principle 12

- The head of internal audit should have unrestricted access to the chairperson and the audit committee. *(Recommended Practice 62)* (1)

This is not evident at Bizniz and represents non-compliance.

2.5 Competence and objectivity of internal audit leadership

King V – Principle 12

- The head of internal audit should possess appropriate competence, experience and independence. (*Recommended Practice 59*) (1)
- Jane Witfield is also the marketing director, creating a self-review and independence threat. → Non-compliance.

2.6 Preparation of financial statements

King V – Principle 7: Appointment and delegation to management

- Management is responsible for the preparation of the annual financial statements.
- Internal audit may review, but not prepare them. (*Recommended Practices 81–83*) (1)
Bizniz's practice is non-compliant.

3. Audit committee

3.1 Composition

King V – Principle 6: Committees of the governing body

- An audit committee should comprise at least three members. (*Recommended Practice 53*) (1)
Bizniz complies with the minimum number requirement.

3.2 Independence of members

King V – Principle 6

- All members of the audit committee should be independent non-executive members. (*Recommended Practices 60–61*) (2)
Two members are executive directors, which compromises independence.
→ Non-compliance with King V.

3.3 Decision-making authority

King V – Principles 6 and 7

- The audit committee may not make strategic investment decisions.
- Such decisions rest with the governing body, subject to shareholder approval where required. (1)
The audit committee's involvement in investment decisions is inappropriate.

4. Risk committee

4.1 Composition

King V – Principle 6

- Committees should comprise at least three members with appropriate skills. (*Recommended Practices 53–54*) (1)
- Bizniz's risk committee has only two members, which is non-compliant. (1)

4.2 Membership mix

King V – Principle 6

- Risk committees may include executive and non-executive members, provided there is sufficient independence. (*Recommended Practice 68*) (1)

This aspect may be acceptable in principle.

4.3 Dismissal of the risk committee

King V – Principles 3, 8 and 13

- The dismissal of the risk committee undermines:
 - effective risk governance,
 - integrated thinking, and
 - stakeholder legitimacy. (1)
- Risk governance is essential for assessing sustainability, resilience and long-term value creation. (1)
- King V requires governing bodies to ensure appropriate committee structures, including audit, risk, remuneration, nomination and social & ethics committees (subject to proportionality). (1)
- Bizniz’s governance structure is therefore inadequate and non-compliant. (1)

Available 29

Maximum 20



Activity 4.8.2

Activity 4.9.2	Estimated time			
	Reading	Writing	Marking and review	Total
16 marks	4,8 minutes	24 minutes	12 minutes	40,8 minutes

C2C (Pty) Ltd ('C2C') is a passenger bus company operating between all major cities across South Africa. It offers luxury long-haul intercity travel. The company credits its past success to its fleet of buses being equipped with safety equipment, air conditioning and heating, as well as

audio entertainment. Recently, C2C has been experiencing financial difficulties caused by a range of new alternative competitors entering the market, which include intercity trains, lowcost airlines and long-distance minibus taxis. The year end of the company is 31 December.

C2C's board of directors has tried to keep the company afloat through the implementation of various strategies, but the company is still facing significant financial difficulties. These include declining revenue, volatile profit margins and a large debt burden. The Covid-19 pandemic, with the resultant travel restrictions that were imposed, severely worsened the situation.

The board of C2C recently convened to discuss progress made on the turnaround strategy of the company. Extracts of the minutes of that meeting are presented below:

Extracts of the minutes of the board meeting: 10 November 2025 Matters discussed 1

1. As initially discussed during the prior board of directors' meeting (held on 20 September 2025) the following strategies were to be implemented to help the business recover
 - 1.1 Restructuring: certain non-profitable bus routes were to be closed down.
 - 1.2 Retrenchments were to be implemented in respect of a portion of the labour force, specifically bus drivers on closed routes.
 - 1.3 Funding of R40 million was to be obtained from a bank to assist with short-term liquidity and with investments in new buses. New buses should provide C2C with a competitive edge.
2. Performance evaluation.

Report back

1. The chief financial officer (CFO), Palesa Vuma, reported back on these matters as follows:
 - 1.1 Restructuring

Non-profitable bus routes were closed down in all nine provinces. A number of the buses on these routes were transferred to more profitable routes, while the rest are not being used at present. During December 2025, one bus was sold to Bus Repairs (Pty) Ltd ('Bus Repairs'), a company that services and repairs buses. As the company is owned by my father-in-law, I was able to negotiate a good sales price on the bus. A maintenance agreement in terms of which Bus Repairs will service all C2C buses for the next five years was included in the sales contract. As you know, our previous maintenance provider was liquidated recently, and therefore C2C would have had to open a tender process for a new maintenance provider if I had not found this brilliant solution. A tender process is now not needed at all, and thus I believe that this agreement has saved us a lot of time (and money). It's a win-win

situation!

1.2 Retrenchments

As a result of the restructuring, several bus drivers had to be retrenched. The bus drivers felt that they were unfairly dismissed and are now taking us to the Commission for Conciliation, Mediation and Arbitration (CCMA). They are requesting higher retrenchment packages and arguing a case for unfair dismissal. We have hired some of the best labour lawyers in the industry and I anticipate this situation to be resolved shortly.

Furthermore, earlier in the year the bus drivers went on strike because they were unhappy with the wages they earned, which were 20% lower than the industry average. Several buses sustained damage during the strike. Fortunately, our insurance covered the bulk of the repair costs.

Luckily, the trade union was able to negotiate with the bus drivers, the strike was halted, and the bus drivers returned to work. I had instructed the chief operating officer to offer the head of the trade union a bursary for his daughter to study in the United Kingdom next year. They know each other very well and play golf together on a regular basis. The bursary is C2C's way of thanking the trade union leader for all the good work he has been doing over the years.

1.3 Funding

1.3.1 Innovation Bank

C2C applied for an additional loan with our banking provider (Innovation Bank) during October 2025 to fund a R40 million capital investment. This was required to implement the business recovery strategies and to ease short-term liquidity pressures. The loan was denied. Innovation Bank stated that C2C is already in danger of defaulting on the renegotiated debt- equity ratio covenant of 1,6:1 on its current loan. The covenant was renegotiated (increased from 1,4:1) in 2020 to provide temporary relief to C2C after the initial lockdown regulations were put in place. Should the covenant be breached again, the full loan will become payable immediately.

Innovation Bank advised C2C to rather raise equity to fund its investment, which will result in an improvement in the debt-equity ratio.

1.3.2 Rights issue

I have decided that the best course of action is to follow the recommendation of Innovation Bank and to issue sufficient shares to fund the capital

investment.

To ensure adherence to appropriate internal due process, I will prepare an EBITDA multiple based valuation of C2C. This will also serve as motivation to us, as the directors who own a large shareholding in CTC, to exercise our rights in the planned capital raise.

We will probably have to price the rights issue at an appropriate discount to entice all the existing shareholders to exercise their rights. I must note that, if all shareholders do not take up their full rights, it could affect the control of the company. I therefore want to suggest that any members of this board who are not able to take up their rights sell their rights to me; this will ensure that control remains in our hands.

2. Performance evaluation

Although my update provides an overview of the success of the various strategies, I do think that this should be assessed in a proper ratio analysis.

- 2.1 Net profit margin (%)
- 2.2 Interest cover (x)
- 2.3 Assets to equity (%)
- 2.4 Interest cover (x)
- 2.5 Debt to equity (%)

I believe these will give us a good indication of the quantitative level of success achieved on these strategies and interventions to date.

REQUIRED:	Marks
Discuss, with reference to the above, the corporate governance concerns you may have regarding the conduct of C2C's directors with reference to the King V Report and the Companies Act.	15
Communication skills – clarity of expression	1

SUGGESTED SOLUTION (KING V)

1) Ethical and effective leadership

King V Principle 1 (Leadership) – The governing body must lead ethically and effectively (integrity, accountability, fairness, transparency).

- The “bursary” to the trade union leader is **an inducement/bribe risk** and inconsistent with integrity and transparency. **(1)**

2) Ethics governance and anti-corruption controls

King V Principle 2 (Ethics) – Governing body must govern ethics, including prevention/detection of **corruption, fraud and money laundering**, and provide safe whistleblowing mechanisms.

- The bursary arrangement indicates weak ethics controls and a failure to prevent/respond to corruption risks. **(1)**

3) Responsible corporate citizenship – fair labour practices

King V Principle 2 (Ethics / responsible corporate citizenship) includes workplace matters such as **fair remuneration** and dignity of employees.

- Paying drivers **20% below industry average** undermines responsible corporate citizenship and increases labour unrest risk. **(1)**

4) Stakeholder legitimacy: labour and society impact

King V Principle 13 (Stakeholders) – Governing body must foster legitimacy by balancing stakeholder interests.

- Allegations of unfair dismissals + CCMA dispute signal poor stakeholder management and reputational damage. **(1)**

5) Conflict of interest: sale to father-in-law + maintenance contract

Companies Act s75 (personal financial interest/conflict) (and **King V Principle 1 & 2**)

- CFO has a related-party interest; she should have **fully disclosed** and **recused** herself from decisions. **(1)**

6) Procurement / tender avoidance (governance process failure)

King V Principle 1 (responsibility/accountability) and **Principle 2 (ethical culture)**

- “No tender needed” suggests bypassing controls; board should insist on fair, transparent procurement to prevent corruption. **(1)**

7) Delegation and authority: CFO dominating board decisions

King V Principle 7 (Appointment & delegation to management) – Delegation must be clear, with the board retaining accountability.

- CFO appears to be making strategic governance decisions unilaterally; board oversight

is ineffective.

(1)

8) Board oversight of strategy execution

King V Principle 3 (Strategy, performance & sustainable value creation) – Board must oversee strategy and operational planning.

- Restructuring and retrenchments require rigorous oversight of impacts and outcomes; minutes suggest weak challenge and insufficient board interrogation. (1)

9) Solvency, liquidity and going concern oversight

King V Principle 3 requires ongoing monitoring of **solvency, liquidity and going concern**.

- High debt burden + covenant risk + liquidity pressure show the board must intensify oversight; failure may threaten sustainable value. (1)

10) Companies Act – reckless trading / financial distress indicator

Companies Act s22 (reckless trading)

- Continuing aggressive funding/commitments while close to covenant breach may indicate reckless trading risk if the company cannot pay debts when due. (1)

11) Capital raise governance: board process and approvals

King V Principle 1 & 7

- Rights issue planning must follow proper governance: formal board resolutions, shareholder communication, documented rationale, and fair process (not “CFO decides”). (1)

12) Adequate consideration for shares

Companies Act s40 – shares may only be issued for **adequate consideration** as determined by the board.

- A “big discount” purely to maintain control risks inadequate consideration and unfairness to shareholders. (1)

13) Shareholder fairness / pre-emptive rights and control manipulation

King V Principle 1 (fairness) & Principle 13 (stakeholders)

- CFO pressuring directors to sell rights to her to retain control is a governance red flag (abuse of power / inequitable treatment of shareholders). (1)

14) Performance evaluation is too narrow (ratios only)

King V Principle 3 – performance oversight includes impacts/outcomes and longer-term viability, not only financial ratios.

- The proposed ratio analysis ignores stakeholder impacts (labour relations, safety, reputation) and sustainability outcomes. (1)

15) Reporting integrity and disclosure of material governance matters

King V Principle 4 (Reporting) – board accountable for integrity of external reports and integrated reporting/sustainability disclosure.

- Bribery allegations, related-party transactions, labour unrest and going-concern/covenant pressure are likely material and require transparent governance disclosure and oversight. **(1)**

Communication skills – clarity of expression

Logical structure, King V principle linked to facts, concise conclusions. **(1)**

Communication skills – clarity of expression (1)

Maximum 16