



Introduction

Since the Launch of the King III Report on Corporate Governance by the Institute of Directors, **the completion of board evaluations has** featured on the board agenda with much hype. But is it too much about nothing? Are boards simply completing the evaluation process as a tick box exercise to demonstrate they have fulfilled their obligations?

King III recommends the annual evaluation of boards and directors. The JSE listing requirements have made the application of King III mandatory, and listed entities that do not apply the code are to provide sufficient disclosure to justify the deviation from the recommended principles and practices. Whilst the intentions of these

requirements have sound merit, it does have the potential of forcing boards to complete the evaluation process as a tick box exercise.

At KPMG, we prefer to look at the completion of board and director evaluations beyond a simple tick box exercise. We believe that the completion of the evaluation process, if done properly, provides board members with the opportunity to self-reflect, analyse and formally review their performance as a collective, and as individuals, with the objective of improving their effectiveness and seeking further efficiency opportunities for the benefit of the organisation.



Benefits of completing board evaluations

There are many benefits of completing a board evaluation properly. These may include, amongst others:

- Creating an opportunity for board members to self-reflect, critically analyse and evaluate improvement areas
- Providing board members with a tool to measure their effectiveness and efficiencies
- Stimulating a culture of learning and improving the effectiveness and efficiency of the board and board members
- Improving the working relationship between the board, company secretariat function and executive management
- Identifying action plans to improve the reporting of information for efficient and effective decision making
- Improving the working relationship between board committees and the board, including streamlining of report back and eliminating duplication of effort
- Identifying the training needs of board members to ensure they are kept abreast of latest developments.



Associated Risks

An improper or poorly crafted board evaluation process may impose inherent risks to the board of an organisation. For example:

- The manner in which the evaluation questionnaire is assessed force the board members into answering the question within the set parameters used for evaluation
- The nature of the questions posed to board members may leave board members without the opportunity to provide input and feedback on other areas of importance
- The results of the evaluation are limited to the manner in which the assessment has been prepared
- The facilitator, if internal to the organisation, may not be independent and the board maintains the risk of following the facilitator's own agenda
- The board may wish to raise sensitivities regarding the internal facilitator (usually the company secretary) however do not have the freedom to do so without creating internal and unnecessary tension
- The chairman and board members may not buy-in to the process of completing the **board evaluations when done internally.**



Using an independent facilitator

Whilst many organisations complete the board evaluation process internally, there are direct benefits that are achieved from retaining the services of an independent facilitator to mitigate the inherent risks of not completing the evaluation process properly. The independent facilitator provides:

- Board members with the platform to speak freely and provide feedback on the company secretariat function without prejudice
- Reports that maintain the confidentiality and discreetness of information and comments made by board members
- Formal written reports based on themes from consensus views rather than quotes from board members or reporting on isolated instances
- Like-minded individuals to perform interviews of board members
- Benchmarks of results and draws on previous experiences and knowledge to provide benchmarking of results
- Value to the evaluation process by assisting with action plans and training programmes.





Additional Value

- Creating Value– it may be value in monetary form or value of another type, depending on the purpose of the organisation. Hence, all business efforts, including corporate governance, should be directed to contribute value.

As such, KPMG as an independent service provider is well positioned to add additional value to you when completing the board evaluation process. Our direct value add can be:

- Action plans and recommendations

Using the results of the assessment, we will be suited to develop an action plan for the board, board committees and board members of your organisation. The action plan, may be used to monitor progress of improvements, summarise the recommendations made in our reports to improve the performance and effectiveness of the board, board committees and board members.

- Induction and training

Our Board Advisory Services team is suitably qualified and experienced to assist the board to develop suitable induction and training programmes, redesign board packs, and meeting agendas as well as design controls and processes to improve the board's efficiencies.

Our multi-disciplined Board Advisory Services team has ample experience in developing and providing training and induction programmes to boards of public and private sector organisations. Using the results of this assignment, KPMG will be suited to review, develop and provide ongoing training (aimed at the needs of the board) for the board members on aspects of corporate governance or technical corporate disciplines.

Some of the readily available training could include:

- Companies Act
- King III
- Role of the board
- Role of Directors and prescribed officers
- Board structures and processes
- Ethics
- Sustainability
- IT governance
- Risk management
- Regulatory compliance
- Internal controls and internal audit

2. Improving the quality of documentation

Our documentation review may highlight areas for improvement with regards to the quality and consistency of the board charter, committee terms of references, meeting and agenda checklists etc. Using our knowledge and experience, KPMG can assist you with review, design and improve various board and governance related documents, processes and controls that will ultimately assist the board improve its effectiveness and efficiencies.

3. Integrated assurance

In reviewing the board and board committee meeting packs, our Board Advisory team may identify areas that are required to provide independent assurance to the said board committee.

These areas should be discussed with executives and the custodians of combined assurance to understand whether additional independent assurance is required.

4 Benchmarking

Our Board Advisory team has completed a number of board assessments and has provided many client presentations and training relating to comparative research regarding the performance of boards. We would be suited to provide a comparison of your board assessment results to the general norms that our research and past experiences may find and use the information obtained to develop suitable action plans and recommendations for your organisation.



Past experiences

In appointing a suitable independent service provider to facilitate a board evaluation process, it is important to understand the experience of the service provider in performing similar assignments. KPMG Board Advisory Team has itself facilitated many board evaluations for clients in both public and private sector. Our experiences have allowed us to understand the complexities and importance of completing the board evaluation process properly. As such, we are able to share, in general, our past experiences to compare the results of the evaluation process to similar organisations and at the same time provide the benefit to you of our streamlined and efficient processes



Scoping a board evaluation with KPMG

When using an independent service provider, like KPMG, to facilitate the board evaluation process, it is important to ensure there are no expectation gaps between the final deliverable of the evaluation process and the scope set with the service provider. The scope of the assignment can be varied based on your objectives – these would then impact on the cost of deliverable as well as participation levels of KPMG. For example

- KPMG could be scoped to assist the company secretariat function in completing the full board evaluation process as an end-to-end solution. This could include drafting questionnaires based on your organisation's specific charters and terms of references, conducting interviews of board members, facilitating the administration of completing the questionnaires, analysing the responses, preparing the reports and presenting the final results; or

- KPMG could be scoped to assist the company secretariat function with specific parts of the board evaluation process. In this case, this is not an end-to-end solution and many parts of the evaluation process will be completed by the company secretariat function. This could

Include KPMG being involved only with preparing the final report and presenting the results to the board. In this case, the company secretariat function will administer the questionnaires and responses and ensure that the responses are provided to KPMG to prepare the report.

In the first end-to-end example, KPMG's participation levels on the evaluation process would be far greater than that of the second example. Based on this, our fees and related deliverables can be expected to be far greater than in the second example.



Conclusion

KPMG would welcome the opportunity to discuss the merits of acting as an independent service provider to assist you with the completion of the board evaluation processes and would be delighted to discuss the scope of such an assignment with expectations of deliverables and associated costs.



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