

SUMMARY OF FINANCIAL REPORTING MONITORING AND CORPORATE GOVERNANCE REVIEW FINDINGS FOR THE YEAR ENDING 31 DECEMBER 2021

SUMMARY OF FINDINGS ON FINANCIAL REPORTING MONITORING

Annexure A

Below is the summary of common findings noted in Financial Reporting Monitoring for the 2021 financial year:

Theme	FINDING AS PER INTERNATIONAL FINANCIAL REPORTING STANDARDS(IFRS) 2021	2021					TOTAL NUMBER OF FINDINGS
		Regulated by BSE	Regulated by BoB	Regulated by NBFRA	Significant Entities (Determined by the Minister)	Parastatals (State Owned Enterprises)	
Primary financial statements	IAS 1: Presentation of financial statements <ul style="list-style-type: none"> • Differences between primary financial statement balances and notes; • Non-disclosure of required financial statement line items; • Inadequate or Inconsistent use of information in the financial statement which may be misleading to users; • Shares not disclosed as "no par value shares"; • Capital risk management not disclosed; • Dividends per share not disclosed. • No disclosure on nature and purpose of reserves 	18	10	19	17	5	69
Non-current assets presentation and disclosure	Inadequate disclosure of: <ul style="list-style-type: none"> • IAS 16: carrying amounts for PPE under the cost model for PPE held under fair value model, and depreciation; • IFRS 5: Facts and circumstances leading to the expected disposal of non-current asset held for sale. 	2	1	1	2	-	6
Current Assets presentation and disclosure	<ul style="list-style-type: none"> • IAS 2: Inadequate disclosures on circumstances leading to inventory write downs and amount of inventory expensed during the year. 	-	-	-	-	1	1
Income taxes	IAS 12-Non-disclosure of deferred tax assets and liabilities. IAS 12-Incorrect computation of deferred tax.	-	-	1	1	-	2

Theme	FINDING AS PER INTERNATIONAL FINANCIAL REPORTING STANDARDS(IFRS) 2021	2021					TOTAL NUMBER OF FINDINGS
		Regulated by BSE	Regulated by BoB	Regulated by NBFRA	Significant Entities (Determined by the Minister)	Parastatals (State Owned Enterprises)	
Accounting policies	IAS 8-Accounting policies: <ul style="list-style-type: none"> Standards, amendments & interpretations to issued standards but not yet effective not disclosed; Non-disclosure of significant accounting policies on a material balances; Disclosure of "boiler plate/irrelevant accounting policies; and IAS 8: Assessment of possible impact of the new standard not disclosed. 	1 ✓	1 ✓	2 ✓ ✓	2 ✓ ✓	-	6
Leases	IAS 17: Non disclosure of significant leasing arrangements; IFRS 16: Inadequate disclosures of: <ul style="list-style-type: none"> Maturity analysis of lease liabilities; Dismantling costs in Right of use Asset accounting policy; Total lease cash outflows. Qualitative and quantitative Information for lessee/ lessor 	7 ✓	3 ✓	3 ✓ ✓	2 ✓ ✓	1 ✓	16
Income statement presentation and disclosure	Non- disclosure of: <ul style="list-style-type: none"> IAS 19: Defined contribution expense; IFRS 15: Contract assets, contract liabilities, performance contracts obligations and transaction prices. IAS 7: Interest paid/received separately in the statement of cashflows; IAS 7: Foreign exchange gains/losses in the statement of cashflows; IAS 21: foreign exchange differences recognised in profit/loss. 	-	5 ✓	4 ✓ ✓	4 ✓ ✓	1 ✓	14
Related party disclosures	IAS 24: Incorrect/inadequate disclosures of : <ul style="list-style-type: none"> related party balances and transactions; Terms and conditions of related party outstanding balances; key management remuneration; 	4 ✓ ✓	1 ✓	4 ✓ ✓	1 ✓	-	10
General deficiencies in disclosures	IFRS 8: <ul style="list-style-type: none"> Inadequate disclosures on factors used to identify reportable segments; No reconciliation of segment's revenue, assets and liabilities to Group AFS IAS 37: Basis and description of provisions not disclosed; IAS 38: Useful lives or amortisation rates relating to the assets not disclosed.	5 ✓ ✓	1 ✓	-	5 ✓ ✓	-	11

Theme	FINDING AS PER INTERNATIONAL FINANCIAL REPORTING STANDARDS(IFRS) 2021	2021					TOTAL NUMBER OF FINDINGS
		Regulated by BSE	Regulated by BoB	Regulated by NBFRA	Significant Entities (Determined by the Minister)	Parastatals (State Owned Enterprises)	
	IAS 27: No accounting policy for associates and subsidiaries in separate financial statements	✓					
Financial Instruments Disclosure	IFRS 7-Inadequate/non disclosures of: <ul style="list-style-type: none"> Collateral held; Financial assets and financial liabilities as per the categories issued by IAS 39; Effect of market risks on equity; Summary of quantitative data for currency risk, credit risk and market risk; and Maturity analysis of derivatives and non-derivatives IFRS 9: Disclosures of financial instruments categories and disclosures not in line with policy	17 ✓	2 ✓	6 ✓	13 ✓	5 ✓	43
Valuation	Inadequate disclosures of: <ul style="list-style-type: none"> IFRS 13: Level 2 and Level 3 information; IFRS 9: Measurement categories and carrying amounts of financial instruments; IFRS 9: Expected credit losses not measured or incorrectly calculated	3 ✓	-	9 ✓	3 ✓	3	18
Group Reporting	IFRS 10: Consolidation of subsidiary not in line with IFRS 10.	1 ✓	-	-	-	-	1
Total number of findings		58	24	49	50	16	197
Total Entities analysed		6	2	4	3	2	17
Average finding per class of PIE		10	12	12	17	8	
Percentage of findings per class of PIE (%)		29	12	25	26	8	

As noted in **Annexure A**, there were sixty-nine (69) findings relating to presentation of financial statements, out of a total of one hundred and ninety-seven (197) which constituted thirty-five percent (35%) of the total findings. It was observed that majority of the entities did not pay attention to detail in the presentation of their financial statements resulting in inconsistencies, which may mislead the users of the financial statements. Inadequate disclosures relating to financial instruments was another area of concern, having the second highest number of findings at a total of forty-three (43) or 22% of the total findings. Entities failed to address the disclosure requirements of IFRS 7. Entities were still using the old IAS 39 categories instead of using the new IFRS 9 categories, and there were also inadequate disclosures for expected credit losses.

The other area of weakness that is emerging is the disclosure on IFRS 16-Leases, which is one of the IFRSs that become effective for annual reporting periods beginning on or after 1 January 2019. Entities should strive to be up to date with the changes in IFRSs to ensure that they are compliant with the new requirements.

The Table above shows that most of the categories have an average of twelve (12) findings per entity. Significant entities are high at seventeen (17) and Parastatals are on the low at eight (8) findings per entity. The average number of findings per entity decreased from 13 in 2020 to 12 in 2021. Significant entities may be lagging behind in terms of performance as they do not have a primary regulator.

Annexure A also shows the average number of findings per entity and per category of PIE. The average number of findings were as follows:

PIE CATEGORY	2021	2020
Regulated by BSE	10	13
Regulated by BoB	12	14
Regulated by NBFIRA	12	13
Significant entity	17	9
Parastatals	8	11

This shows that the average number of findings for most of the categories decreased from 2020, except for significant entities whose average number of findings increased to 17 from 9 in 2020.

SUMMARY OF FINDINGS FOR CORPORATE GOVERNANCE REVIEWS

Annexure B

Below is the summary of common findings noted in Corporate Governance for the 2021 financial year:

2021							
Theme	Findings as per King III Code Principles and recommended practices	Regulated by BSE	Regulated by BoB	Regulated by NBFIRA	Significant Entities (Determined by the Minister)	Parastatals (State Owned Enterprises)	Total number of findings
Compliance Code disclosure	No statement of compliance with a corporate governance code such as King III or similar code.	1	1	3	1	2	8
Ethical Leadership and Corporate citizenship	Principle 1.3/ Principle 3, Recommended practice 11: The board did not ensure that management develops corporate citizenship policies.	3	2	3	1	4	13

2021							
Theme	Findings as per King III Code Principles and recommended practices	Regulated by BSE	Regulated by BoB	Regulated by NBFIRA	Significant Entities (Determined by the Minister)	Parastatals (State Owned Enterprises)	Total number of findings
Board and Directors	Principle 2.1: The Board should act as the focal point, and custodian of, corporate governance. Recommended practice 2.1.1 / Principle 6 Recommended practice 2: There was no approved Board Charter.	4	-	2	3	-	9
	Recommended practice 2.2.1 / Principle 4 Recommended practice 1 and 3: Corporate strategy not approved.	4	1	2	4	1	12
	Recommended Practice 2.14.5: No policy for dealing in securities by directors, officers and selected employees.	1	-	-	-	-	1
	Principle 2.16: The board did not elect a chairman of the board who is an independent non-executive director. The CEO of the company fulfilled the role of chairman of the board; Principle 7, Recommended practice 32 and 38(b): No appointment of the lead independent Director	5	-	2	2	1	10
	Recommended practices 2.16.9 & 2.17.5 / Principle 10, Recommended practices 81 and 88: There were no documented succession plans for the role of the Chairman, CEO and senior executives.	5	2	3	5	3	18
	Recommended Practice 2.17.4: No performance review of the CEO.	3	1	2	2	1	9
	Principle 2.18/Principle 7, Recommended practice 7.a: When determining the number of directors serving on the board, the knowledge, skills and resources required for conducting the business of the board was not considered.	2	-	2	1	2	7
	Recommended practice 2.18.5: The Board did not have a minimum of 2 executive directors.	5	2	2	1	-	10
	Recommended practice 2.18.9: There was no disclosure of the assessment of	4	-	2	1	-	7

2021							
Theme	Findings as per King III Code Principles and recommended practices	Regulated by BSE	Regulated by BoB	Regulated by NBFIRA	Significant Entities (Determined by the Minister)	Parastatals (State Owned Enterprises)	Total number of findings
	the independence of the independent non-executive directors of the Board.						
	Recommended practice 2.18.10: the Board was not allowed to remove directors without shareholders approval.	-	-	-	-	2	2
	Recommended practice 2.19.1: there was no Nomination Committee to assist in the appointment of new directors.	3	2	2	4	3	14
	Recommended practice 2.19.4: the board had not made full disclosures regarding individual directors.	3	-	-	4	1	8
	Principle 2.20: No induction of and ongoing training of directors.	5	-	1	2	3	11
	Principle 2.21: the company secretary not appointed by the Board	1	-	2	1	-	4
	Principle 2.22: Evaluation of the board, its committees and individual directors not performed and no disclosures in the integrated report.	5	1	4	4	3	17
	Recommended Practice 2.23.1: No approved terms of reference for committees.	1	-	2	2	3	8
	Recommended practice 2.23.6: Risk; nomination and remuneration committees not established.	1	1	2	2	-	6
Remuneration of directors and senior Executives	Principles 2.25 & 2.26: remuneration of directors and senior executives not disclosed for each director and no remuneration policy	4	2	3	5	2	16
	Principle 2.27: Shareholders had not approved the company's remuneration policy before implementation	5	1	2	3	2	13
Audit Committees	Recommended Practice 3.1.4: The audit committee did not meet a minimum of two times a year.	3	1	1	1	2	8
	Recommended Practice 3.1.5: No evidence of meeting between audit						

2021							
Theme	Findings as per King III Code Principles and recommended practices	Regulated by BSE	Regulated by BoB	Regulated by NBFIRA	Significant Entities (Determined by the Minister)	Parastatals (State Owned Enterprises)	Total number of findings
	committee with auditors without management.						
	Principle 3.2: Membership of the Audit Committee did not consist of independent Non-Executive Directors in entirety and lacked required skills.	3	-	2	2	3	10
	Recommended practice 3.3.3: Audit committee Chairperson did not attend AGM.	1	2	-	1		4
	Principle 3.6: The audit committee did not satisfy itself of the expertise, resources and experience of the company's finance function.	5	2	2	2	3	14
	Recommended practice 3.9.4: No policy for non-audit services provided by the external auditor.	2	1	-	-	2	5
	Principle 3.10: The Audit Committee's report to the Board and shareholders on how the Committee has discharged its duties not evident on the annual report.	3	1	-	1	1	6
Governance of Risk	Principle 4.1: Risk management policy and plan not developed	6	1	4	2	-	13
	Principle 4.2/ Principle 11, Recommended practice 4 and 8: The board did not ensure that management sets risk tolerance and risk appetite levels.	1	-	-	-	1	2
	Principle 4.4 & 4.5: The risk assessments procedures not performed on a continual basis.	2	-	-	-	1	3
	Principle 4.7: Appropriate risk responses not implemented.	1	-	1	1	-	3
	Recommended practice 4.9.2: No assurance obtained on the effectiveness of internal controls and risk management to the board.	2	1	3	1	3	10

2021							
Theme	Findings as per King III Code Principles and recommended practices	Regulated by BSE	Regulated by BoB	Regulated by NBFIRA	Significant Entities (Determined by the Minister)	Parastatals (State Owned Enterprises)	Total number of findings
	Recommended practice 4.10.2: The board did not disclose its view on the effectiveness of the risk management process in the integrated report.	2	-	-	-	-	2
Governance of information technology	Recommended Practices 5.1.2 and 5.1.4 / Principle 12, Recommended Practices 10 and 11: No approved IT charter, IT policies and internal control framework.	-	1	2	3	-	6
	Principle 5.2: IT Strategy not integrated with the overall corporate strategy.	3	1	-	1	1	6
	Recommended practice 5.4.3: No independent assurance on the IT governance and controls supporting outsourced IT services by the Board	8	1	2	1	1	13
Compliance with laws, rules, codes and standards	Recommended Practice 6.4.1 / Principle 13 Recommended practice 18 & 19: No approved legal compliance framework	2	-	1	1	-	4
	Recommended practice 6.4.3: Compliance with laws, rules, codes and standards not incorporated in the code of conduct. Recommended Practice 6.4.5: No disclosure on the integrated report of the existence or non-existence of details of material or often repeated instances of non-compliance with laws, rules, codes and standards.	5	-	3	2	-	10
Internal audit	Principle 7.1: The board had not ensured that there was an effective risk based internal audit.	2	-	-	-	1	3
	Recommended Practice 7.1.3 internal audit charter not approved.	2	-	1	1	1	5
	Recommended Practice 7.4.3: The audit committee did not ensure that the internal audit function was subjected to an independent quality review.	-	2	-	1	2	5
	Recommended Practice 7.5.5: The Chief Audit Executive did not develop and	2	-	2	2	2	8

2021							
Theme	Findings as per King III Code Principles and recommended practices	Regulated by BSE	Regulated by BoB	Regulated by NBFIRA	Significant Entities (Determined by the Minister)	Parastatals (State Owned Enterprises)	Total number of findings
	maintain a Quality Assurance and Improvement Programme (QAIP)						
	Principle 7.4.5: The Audit Committee was not involved in the appointment, performance assessment and dismissal of the Chief Audit Executive.	2	-	3	3	-	8
	Principle 7.5.2 The internal audit function did not report functionally to the audit committee.	1	-	-	1	-	2
	Recommended Practice 7.5.4. internal audit skills and resources not adequate.	1	-	-	-	-	1
Governing stakeholder relationships	Recommended practice 8.1.2: The board did not identify important stakeholder groupings.	-	1	-	-	1	2
	Recommended practice 8.2.6: No disclosure of nature of company dealings with stakeholders and outcomes of those dealings .	2	1	1	3	-	7
	Recommended practice 8.5.3 / Principle 16, Recommended practice 1 and 2: The board did not adopt communication guidelines that support a responsible communication programme.	2	-	1	2	-	5
	Recommended practice 8.6.1: No formal dispute resolution processes for internal and external disputes adopted.	3	-	2	1	2	8
Integrated reporting and disclosures	Recommended Practice 9.1: Integrated report (annual report) not prepared timely/inadequate sustainability disclosures	6	2	3	3	2	16
Total findings		137	34	75	84	62	392
Total Entities		6	2	4	3	2	17

Average findings per class of PIE	23	17	19	28	31	
Percentage of findings per class	35%	9%	19%	21%	16%	100%

Key: BoB: Bank of Botswana, BSE: Botswana Stock Exchange, SOE: State Owned Entities / Parastatals, NBFIRA: Non-Bank Financial Institutions Regulatory Authority

The corporate governance review findings analysis in **Annexure B** above shows that Parastatals had the highest average number of findings at 31 per entity, followed by Significant entities with 28 findings. Entities regulated by BoB had the lowest average number of findings at 17 per entity. Significant Entities follow a similar trend in poor performance just like in financial reporting monitoring reviews.

The following themes had the highest number of findings:

- (a) There were no succession plans in place for the Board Chairperson, Chief Executive Officer and Senior Executive Management;
- (b) Performance evaluations of Board, Its Committees and individual directors were not performed;
- (c) The policies and disclosures of Remuneration of directors were not adequate;
- (d) Corporate Strategy was not approved by the Board;
- (e) Board composition was not in accordance with best practice which required majority of Board members to be non-executive directors;
- (f) Audit Committee members were not all independent non-executive directors;
- (g) The Audit Committee did not review the finance function;
- (h) With respect to Quality Assurance and Improvement Program eight (8) out of seventeen (17) Entities reviewed were not compliant with recommended practice; and
- (i) Of the seventeen (17) entities reviewed sixteen (16) entities did not prepare the Integrated Report or had inadequate sustainability disclosures.