



## **SUMMARY OF FINANCIAL REPORTING MONITORING AND CORPORATE GOVERNANCE REVIEW FINDINGS**

**FOR THE YEAR ENDED 31 DECEMBER 2019**

# 1. FINANCIAL REPORTING MONITORING AND CORPORATE GOVERNANCE REVIEW ANALYSIS

## INTRODUCTION

- 1.1 Sixteen (16) financial reporting monitoring and corporate governance reviews were completed by the Authority during the period January 2019 to December 2019. Of these, eight (8) were parastatals, three (3) were significant entities determined by the Minister in accordance with Section 22(d) of the Act, two (2) were entities supervised by the Bank of Botswana, one (1) was a listed entity and two (2) were entities supervised by Non-banking financial institutions. The reviews each consisted of a financial reporting review and a corporate governance review.
- 1.2 Of the sixteen (16) entities, that were reviewed in 2019:
- a) fourteen (14) complied with IFRS, laws and regulations reporting requirements in all material respects, while two (2) did not comply;
  - b) all sixteen (16) entities satisfied the going concern requirements;
  - c) two (2) entities were compliant and fourteen (14) entities were not compliant with King III requirements. Appropriate recommendations for improvement have been made to the entities.
- 1.3 It is expected that a re-review for entities that were either not compliant with IFRS or not compliant with the requirements of King III will be undertaken in the next 24 months.
- 1.4 We have three to four years since we commenced reviews of PIEs on compliance with:
- a) International Financial Reporting Standards (IFRS), Laws and Regulations;
  - b) Compliance with good corporate governance practices as espoused in the King Codes and or equivalent.
- 1.5 Two entities have distinguished themselves in these areas in terms of compliance. The rating considered promptness in responding to our reports, the preparation of a detailed Action Plan to address the findings

and continuous monitoring and updating the Authority on progress made. This is commendable indeed! The entities are:

- First National Bank (FNB); and
- Botswana Insurance Holdings Limited (BIHL)

1.6 The review findings on **corporate governance** were as summarised below:

**Summary of findings grouped into appropriate themes**

2019							
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
<b>Compliance Code disclosure</b>	No statement of compliance with a corporate governance code such as King III or similar code	1	1	1	2	11	<b>16</b>
<b>Ethical Leadership and Corporate citizenship</b>	Recommended practice 1.3.8: effective monitoring of ethics	1	1	2	-	10	<b>14</b>
<b>Board and Directors</b>	Principle 2.1: The Board should act as the focal point, and custodian of, corporate governance	1	1	1	2	5	<b>10</b>
	Recommended practices 2.16.9 & 2.17.5: There were no documented succession plans for the role of the Chairman, CEO and senior executives	1	2	2	3	8	<b>16</b>
	Recommended Practice 2.17.4: No performance review of the CEO	-	-	-	-	1	<b>1</b>
	Recommended practice 2.18.5: Membership of the Board not according to recommended best practice, that every board should have a minimum of two executive directors	-	2	1	2	10	<b>15</b>
	Recommended practice 2.18.9: There was no disclosure of the assessment of the independence of the independent non-executive directors of the Board	-	2	2	3	6	<b>13</b>
	Recommended practice 2.18.10: the policies on removal of directors not according to recommended best practice.	-	-	-	-	2	<b>2</b>
	Recommended practice 2.19.1: the policies on appointment of directors not according to recommended best practice.	-	1	2	2	10	<b>15</b>

2019							
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	Recommended practice 2.19.4: the board had not made full disclosures regarding individual directors	-	2	-	2	10	14
	Recommended practice 2.2.1: Corporate strategy not approved	1	-	-	1	1	3
	Principle 2.20: the induction of and ongoing training of directors	1	-	1	2	4	8
	Principle 2.21: the company secretary not according to recommended best practice	-	1	1	-	1	3
	Principle 2.22: Evaluation of the board, its committees and individual directors not performed and no disclosures in the integrated report	1	1	2	3	10	17
	Recommended Practice 2.23.1: No approved terms of reference of committees	1	-	-	1	3	5
	Recommended practice 2.23.6: No established risk; nomination and remuneration committees	1	-	-	2	3	6
Remuneration of directors and senior Executives	Principles 2.25 & 2.26: The policies and disclosures of remuneration of directors and certain senior executives not according to recommended best practice	1	2	2	2	10	17
	Principle 2.27: Shareholders had not approved the company's remuneration policy before implementation	-	1	1	1	4	7
Audit Committees	Recommended Practice 3.1.5: No evidence of meeting between audit committee and auditors without management	-	-	-	-	2	2
	Recommended practice 3.1.4: the audit committee should meet as often as is necessary to fulfil its functions but at least twice a year.	-	-	-	-	1	1
	Principle 3.2: Membership of the Audit Committee does not consist of independent Non-Executive Directors in entirety or required skill	-	1	2	1	2	6
	Principle 3.6: The audit committee should satisfy itself of the expertise, resources and experience of the company's finance function	-	1	1	2	10	14
	Principle 3.10: The Audit Committee's report to the Board and shareholders on how the	-	1	-	1	8	10

2019							
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	Committee has discharged its duties not evident on the annual report						
Governance of Risk	Recommended Practice 4.1.2 No comment of the effectiveness of risk management in the integrated/annual report	-	-	1	1	4	6
	Principle 4.5: the risk assessments procedures not performed on a continual basis.	-	1	1	1	5	8
Governance of information technology	Recommended Practices 5.1.2 and 5.1.4 No approved IT charter, IT policies and internal control framework	1	-	2	3	6	12
Compliance with laws, rules, codes and standards	Recommended Practice 6.4.1 No approved legal compliance framework	1	1	1	1	7	11
	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	-	-	2	2	7	11
Internal audit	Principle 7.1: The board had not ensured that there is an effective risk based internal audit	-	-	-	-	1	1
	Recommended Practice 7.1.3 internal audit charter not approved	-	-	-	1	2	3
	Principle 7.3: Internal audit had not provided a written assessment of the effectiveness of the company's system of internal controls and risk management	-	-	-	1	-	1
	Recommended Practice 7.4.3: The audit committee should ensure that the internal audit function is subjected to an independent quality review Recommended Practice 7.5.5: The Chief Audit Executive should develop and maintain a Quality Assurance and Improvement Programme (QAIP)	-	1	1	1	11	14
	Principle 7.4.5: The audit committee should be responsible for the appointment, performance assessment and dismissal of the Chief Audit Executive.	-	2	-	-	1	3

2019							
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	Principle 7.5.2 The internal audit function should report functionally to the audit committee.	-	-	-	-	1	1
	Recommended Practice 7.5.4. internal audit skills and resources not adequate	-	-	-	-	9	9
Governing stakeholder relationships	Recommended practice 8.2.6 no disclosure of stakeholder dealings and stakeholder management	1	1	1	1	2	6
Integrated reporting and disclosures	Recommended Practice 9.1.3: Integrated report (annual report) not prepared timely	-	-	-	2	2	4
	Principle 9.3 sustainability disclosures not adequate	-	-	1	-	3	4
Shareholder compact	Compliance with PEEPA guidelines: There was no shareholder compact	-	-	-	-	5	5
<b>Total findings</b>		<b>13</b>	<b>26</b>	<b>31</b>	<b>46</b>	<b>198</b>	<b>314</b>
<b>Total Entities</b>		<b>1</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>11</b>	<b>19</b>

<b>Average findings per class of PIE</b>	<b>13</b>	<b>13</b>	<b>16</b>	<b>15</b>	<b>18</b>	
<b>Percentage of findings per class</b>	<b>4%</b>	<b>8%</b>	<b>10%</b>	<b>15%</b>	<b>63%</b>	

**Key:**

BOB: Bank of Botswana

BSE: Botswana Stock Exchange

SOE: State Owned Entities / Parastatals

1.7 The corporate governance review findings analysis above shows a similar trend of State-Owned Entities (SOE) performing poorly. More than 50% of the findings were coming from SOE, with the rest of the findings spread between other PIE categories.

1.8 The review findings on **financial reporting monitoring** were as summarised below:

**Summary of findings grouped into appropriate themes**

Theme	FINDING AS PER INTERNATIONAL FINANCIAL REPORTING STANDARDS(IFRS) 2019	2019					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	<p>IAS 1: Presentation of financial statements</p> <ul style="list-style-type: none"> <li>• material differences between primary financial statement balances and notes;</li> <li>• non-disclosure of required financial statement line items;</li> <li>• Inadequate or Inconsistent use of information in the financial statement which may be misleading;</li> <li>• Information presented not relevant, reliable, comparable and understandable;</li> <li>• Subsequent reclassification of other comprehensive income not disclosed;</li> <li>• Items for depreciation and amortisation not disclosed;</li> <li>• Shares not disclosed as "no par value shares";</li> <li>• Capital risk management not disclosed;</li> <li>• Dividends per share not disclosed.</li> </ul>	3	7	12	9	24	55
Non-current assets presentation and disclosure	<p>Inadequate disclosure of:</p> <ul style="list-style-type: none"> <li>• IAS 16: cost model carrying amounts for PPE assets held at valuation, Inadequate disclosure on depreciation;</li> <li>• IAS 40: direct operating expenses, rental received, disposal proceeds and valuer information for investment property not disclosed;</li> <li>• IFRS 5: non-current asset held for sale: Facts and circumstances leading to the disposal.</li> </ul>	1	-	1	-	24	26
Current Assets presentation and disclosure	<ul style="list-style-type: none"> <li>• IAS 2: Disclosures on circumstances leading to inventory write downs and amount of inventory expensed during the year</li> <li>• IAS 2: Non-disclosure of carrying amounts of the encumbered assets</li> </ul>	-	-	-	1	3	4
Income taxes	<p>IAS 12-Non-disclosure of:</p> <ul style="list-style-type: none"> <li>• tax portion relating to other comprehensive income; and</li> <li>• Withholding tax on dividends.</li> </ul>	-	1	-	1	4	6

		2019					
Theme	FINDING AS PER INTERNATIONAL FINANCIAL REPORTING STANDARDS(IFRS) 2019	Regulated by BSE	Regulated by BoB	Regulated by NBFRA	2019		TOTAL NUMBER OF FINDINGS
					Significant Entities (Determined by the Minister)	Parastatals (State Owned Enterprises)	
Accounting policies	IAS 8-Accounting policies: <ul style="list-style-type: none"> <li>Standards, amendments &amp; interpretations to existing standards not yet effective not disclosed;</li> <li>non-disclosure of accounting policies on material balances;</li> <li>disclosure of “boiler plate/irrelevant accounting policies; and</li> <li>IAS 8: Assessment of possible impact of the new standards not done.</li> </ul>	1	2	1	1	9	14
Leases	IAS 17: Inadequate disclosures of: <ul style="list-style-type: none"> <li>minimum lease payments;</li> <li>significant leasing arrangements;</li> <li>Lease period for operating lease not disclosed.</li> </ul>	-	-	-	2	10	12
Income statement presentation and disclosure	Non- disclosure of: <ul style="list-style-type: none"> <li>IAS 19: Defined contribution expense;</li> <li>IFRS 15: Contract assets, contract liabilities and performance contracts obligations;</li> <li>IAS 7: Interest paid/received in the statement of cashflows;</li> <li>IAS 7-Foreign exchange rates are not disclosed in the statement of cashflows;</li> <li>IAS 20: Nature and extent of government grant; and</li> <li>IAS 36: Inadequate disclosures on impairment of assets and impairment on goodwill.</li> </ul>	2	2	1	4	8	17
Related party disclosures	<ul style="list-style-type: none"> <li>IAS 24: Incorrect/inadequate disclosures of related party balances and transactions, Terms and conditions of related party outstanding balances, key management remuneration.</li> </ul>	1	-	2	3	5	11
General deficiencies in disclosures	<ul style="list-style-type: none"> <li>IFRS 8: Inadequate disclosures on factors used to identify reportable segments</li> <li>IAS 26: Inadequate accounting and reporting on retirement benefit plan on the financial statement</li> <li>IAS 32: Financial liabilities and assets should exclude tax, Non-financial assets disclosed as part of financial assets</li> <li>IAS 38: Useful lives or amortisation rates relating to the asset not disclosed</li> </ul>	3	1	-	2	4	10



		2019					
Theme	FINDING AS PER INTERNATIONAL FINANCIAL REPORTING STANDARDS(IFRS) 2019	Regulated by BSE	Regulated by BoB	Regulated by NBFRA	2019		TOTAL NUMBER OF FINDINGS
					Significant Entities (Determined by the Minister)	Parastatals (State Owned Enterprises)	
Financial Instruments Disclosure	IFRS 7-Inadequate disclosures of: <ul style="list-style-type: none"> <li>Collateral held not described;</li> <li>Financial assets and financial liabilities as per the categories issued by IAS 39;</li> <li>Effect of market risks on equity;</li> <li>Summary quantitative data for liquidity risk, currency risk, credit risk and market risk;</li> <li>Ageing of financial assets; and</li> <li>Management of interest risk arising from interest bearing financial instruments.</li> </ul>	-	4	4	3	6	17
Valuation	Inadequate disclosures of: <ul style="list-style-type: none"> <li>IFRS 13: Level 2 and Level 3 information;</li> <li>IFRS 7: Fair value of financial assets and financial liabilities;</li> <li>IFRS 9 Measurement categories and carrying amounts of financial instruments; and</li> <li>IFRS 2 Fair value and weighted average exercise price of share options outstanding during the period.</li> </ul>	-	1	3	4	11	19
Events after the reporting date	IAS 10: Events after reporting period- Date of approval of annual report not disclosed	-	-	-	-	3	3
<b>Total number of findings</b>		<b>11</b>	<b>18</b>	<b>24</b>	<b>30</b>	<b>111</b>	<b>194</b>
<b>Total Entities analysed</b>		<b>1</b>	<b>2</b>	<b>2</b>	<b>3</b>	<b>11</b>	<b>19</b>
<b>Average finding per class of PIE</b>		<b>11</b>	<b>9</b>	<b>12</b>	<b>10</b>	<b>10</b>	
<b>Percentage of findings per class of PIE</b>		<b>6%</b>	<b>9%</b>	<b>13%</b>	<b>15%</b>	<b>57%</b>	

1.9 There were fifty - five (55) findings relating to presentation of financial statements, out of a total of one hundred and ninety-four (194) which constituted twenty eight percent (28%) 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 non-current assets was another area of concern, having the second highest number of findings at a total of twenty-six (26)

or 13% of the total findings. The entities failed to address the disclosure requirements relating to Investment Property (IAS 40) and Property, Plant and Equipment (IAS 16) just to name a few.

1.10 Table above demonstrates a trend in the average number of findings per entity and per class of PIE. Most of the categories have an average of eleven (11) findings per entity. Entities regulated by NBFIRA are slightly higher at twelve (12) and entities regulated by BoB are on the low at nine (9) findings per entity. The average number of findings per entity increased from 8 in 2018 to 11 in 2019. There is no consistency as to which type of PIEs are performing badly in financial reporting monitoring reviews, as some of the parastatals' financial statements were good and some of them were poorly done as evidenced by non-compliance in IFRS by two (2) parastatals.

## CONCLUSION

1.11 Based on the results of the Financial Reporting Monitoring and Corporate Governance reviews undertaken in 2019, we have noted improvements as most of the entities; fourteen (14) out of sixteen (16) complied with IFRS. However, in the area of Corporate Governance only two (2) entities complied with King III corporate governance principles and fourteen (14) entities did not meet the minimum requirements of King III. Entities should strive to meet the minimum corporate governance benchmarks required under the King III Code of Corporate Governance or its equivalent.