

REPORT ON THE OBSERVANCE OF STANDARDS AND CODES (ROSC) Republic of Botswana

ACCOUNTING AND AUDITING

May 20, 2006

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EXECUTIVE SUMMARY

This report provides an assessment of accounting and auditing practices within the corporate sector in Botswana with reference to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and International Standards on Auditing (ISA) issued by the International Federation of Accountants (IFAC). This assessment is positioned within the broader context of the country's institutional framework and capacity needed to ensure the quality of corporate financial reporting. Efforts are necessary for strengthening the capacity of the regulators and ensuring compliance with applicable standards and codes.

Botswana has made considerable efforts in aligning its accounting and auditing practices with internationally accepted standards and codes. Corporate accounting and disclosure practices have considerably improved over the last 5 years. Monitoring and enforcement of financial reporting requirements in the banking sector have contributed to improved transparency of the financial sector. Even with progress, there is room for further improvements. The report highlights areas that need attention for strengthening the infrastructure of accounting and auditing practices in Botswana. There is no legal mandate for corporate entities to follow IFRS in preparation of financial statements and ISA in conducting audits. There are varying compliance gaps in both accounting and auditing practices. These gaps could stem from lack of clearer understanding by professional accountants, inadequate technical capacities of the regulators, absence of implementation guidance, lack of independent oversight of the auditing profession, and shortcomings in professional education and training. Botswana's accounting profession is largely dominated by members of the Association of Chartered Certified Accountants of the United Kingdom. Botswana Institute of Accountants (BIA) is in its early stage of development. Since citizen accountants of Botswana seem to lack interest in becoming BIA members, an immediate need should be to turn this around and build up BIA capacity to create an enabling environment for ensuring high-quality corporate financial reporting and auditing practices.

The policy recommendations in this report received input from many in-country stakeholders and are aimed for consideration by Botswana authorities. The underlying thrust of the recommendations is to integrate with regional and subregional initiatives, wherever applicable, to share resources in order to strengthen accounting and auditing practices in Botswana. Specific recommendations include improving the capacity of regulators and the professional body, instituting a system for independent oversight of auditing profession, upgrading the licensing procedure of professional accountants and auditors, and developing simplified reporting requirements for small and medium enterprises. Others are directed toward training and education—upgrading accountancy education and training with focus on practical application of IFRS and ISA, introducing a Botswana professional qualification examination with focus on adequate level of practical training, introducing industry-specific training programs, issuing and disseminating implementation guidance on applicable standards, and enhancing the delivery of continuing professional education. The World Bank, in collaboration with other institutions, has been supporting activities on the development of relevant subregional initiatives in the Africa Region.

PREFACE

Following the Asian financial crisis in 1997, the international community recognized the real need to assess the degree to which a country observes internationally recognized standards and codes. The World Bank and the International Monetary Fund (IMF) instituted Reports on the Observance of Standards and Codes (ROSC) that assess key areas in a country's economic well-being: accounting and auditing, anti-money laundering and combating the financing of terrorism, banking supervision, corporate governance, data dissemination, fiscal transparency, insolvency and creditor rights, insurance supervision, monetary and fiscal policy transparency, payments system, and securities regulation.

There is a broad agreement among members of the international financial community that the observance of international standards and codes are pivotal in strengthening national and international financial architecture. At the international level, international standards enhance transparency as well as multilateral surveillance. They help to better identify weaknesses that may contribute to economic and financial vulnerability, foster market efficiency and discipline, and ultimately contribute to a global economy that is more robust and less prone to crisis. At the national level, international standards provide a benchmark that can help identify vulnerabilities as well as guide policy reform. To best serve these objectives, however, the scope and application of such standards needs to be assessed in the context of a country's overall development strategy and tailored to individual country circumstances.

The ROSC Accounting & Auditing review focuses on the institutional framework regulating the accounting and auditing practices, and the comparability of national accounting and auditing practices with international standards and best practices, using International Financial Reporting Standards (IFRS) and International Standards on Auditing (ISA) as benchmarks. And it evaluates the effectiveness of enforcement mechanisms for ensuring compliance with applicable standards and codes. The final draft report is submitted to the country authorities for comment, approval, and permission to publish. Once agreed, the report is published on the World Bank's website. An overview of the ROSC Accounting & Auditing Program and a detailed presentation of the methodology are available at http://www.worldbank.org/ifa/rosc_aa.html

The ROSC Accounting & Auditing review exercise was carried out in Botswana from February to April 2006 through a participatory process involving stakeholders with the country, including the Ministry of Finance, Bank of Botswana, Botswana Institute of Accountants, Auditor General, banks, insurance companies, state-owned enterprises, audit firms, corporate accountants, and academics.

The Botswana ROSC Accounting & Auditing was conducted by a World Bank team comprising Edward Olowo-Okere, Manager, Financial Management and Task Leader (AFTFM); M. Zubaidur Rahman, Program Manager (OPCFM); and Humayun Murshed (consultant). Charles Muthuthi, Principal Governance Specialist of African Development Bank, joined the team during due diligence mission in April 2006.

ABBREVIATIONS AND ACRONYMS

ACCA	Association of Chartered Certified Accountants (UK)
BIA	Botswana Institute of Accountants
BSE	Botswana Stock Exchange
CIU	Collective Investment Undertakings
CPD	Continuing professional development
ECSAFA	Eastern Central and South African Federation of Accountants
GDP	Gross domestic product
IAASB	International Auditing and Assurance Standards Board
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IASC	International Accounting Standards Committee
IFAC	International Federation of Accountants
IFRC	International Financial Reporting Committee
IFRS	International Financial Reporting Standard
IMF	International Monetary Fund
ISA	International Standard on Auditing
MFDP	Ministry of Finance and Development Planning
ROSC	Reports on the Observance of Standards and Codes
SADC	Southern African Development Community
SME	Small and medium enterprise
SOE	State-owned enterprise

I. INTRODUCTION AND BACKGROUND

1. This assessment of accounting and auditing practices in Botswana is part of a joint initiative of the World Bank and the International Monetary Fund (IMF) to prepare Reports on the Observance of Standards and Codes (ROSC). The assessment focuses on the strengths and weaknesses of the accounting and auditing practices that influence the quality of corporate financial reporting. International Financial Reporting Standards (IFRS)¹ and International Standards on Auditing (ISA) have been used as benchmarks for this assessment. The review used a diagnostic template developed by the World Bank to facilitate collection of data. The data was complemented by the findings of a due diligence exercise based on a series of meetings with key stakeholders conducted by the World Bank staff. The intended audience of this report includes national and international market participants, who have an interest in the corporate financial reporting regime of Botswana. An overview of the ROSC Accounting and Auditing and the detailed presentation of methodologies are available in the World Bank Group website.

2. Botswana, with a population of 1.7 million, has a track record of rapid and sustained growth. Diamond mining has been the primary reason for the country's transformation into one of Africa's wealthiest nations with a gross national income per capita US\$4,340.² Botswana's economic growth rate—averaging a slightly exceeding 7 percent over the past two decades—has been the highest in the developing world.³ Botswana has low level of debt at about 10 percent of gross domestic product (GDP). The country has remarkably managed to avoid “Dutch disease,” which figuratively refers to related distortions that typically affect economies with large natural resource endowments. These strengths are partially undermined by a narrow economic base and the severe socio-economic impact of the HIV/AIDS pandemic. In addition, wide income inequalities and a high unemployment rate persist due to skill shortages. Despite consistent efforts for diversification, the diamond sector continues to dominate macroeconomic performance. This sector contributes over 35 percent of the country's GDP.⁴ Reducing the country's dependence on diamonds and handling the HIV/AIDS crisis remain the primary focus of the government development strategy. The Government of Botswana has managed the country's resources prudently and has kept its recurrent expenditures within its revenue, allowing for investment in human and physical capital.

3. Since the launch of the Financial Sector Development Strategy in 1989, there has been an increase in the number of banks and financial institutions. Despite this, Botswana has achieved minimal progress in the development of its capital market. The financial system consists of 1 independent central Bank (Bank of Botswana), 7 commercial banks (including 1 off-shore bank), 1 merchant bank, 1 development bank, 1 savings bank, 1 building society, 14 insurance companies, 100 pension and provident funds, a stock exchange, and several asset management companies. The overall capital market development has however not kept pace with the growth in the financial sector. There are 27 publicly traded companies registered in the Botswana Stock

¹ Within this report, IFRS refers to all standards and related interpretations issued by the International Accounting Standards Board (IASB) and its predecessor, the International Accounting Standards Committee (IASC). IASC-issued standards are known as International Accounting Standards (IAS). In line with IASB's pronouncements, it is a common practice, reference to IFRS also includes ISA.

² World Bank, *Botswana Country Brief*, Africa Region, September 2005. The Bank of Botswana exchange rate on April 28, 2006 was 1 Botswana Pula (BWP) equaling US\$0.1837.

³ World Bank, *Botswana Country Brief*, Africa Region, September 2005.

⁴ World Bank, *Botswana Country Brief*, Africa Region, September 2005.

Exchange (BSE). As of April 21, 2006, the market capitalization of the BSE was US\$7 billion.⁵ Private enterprises in Botswana continue to have limited access to capital because of the risk-averse nature of financial institutions. Currently, there is no body like the Securities and Exchange Commission to regulate the activities of the stock market.

4. **Botswana's key development challenge is to ensure a vibrant private sector and attract high levels of foreign direct investments in order to sustain economic growth.** In order to achieve this objective, Botswana should further enhance its investment climate through streamlining the regulatory framework and deepen the financial and capital markets. From that standpoint, it is crucial for Botswana to further align its corporate sector practices with those of its regional and leading international partners and thereby enhance the country's attractiveness in competing for foreign direct investment. In this regard, the key focus should be to ensure high-quality corporate financial reporting practices. Strengthening private sector financial reporting practices could offer Botswana the following benefits:

- ***Increased levels of trading on the Botswana stock market.*** Corporate entities' access to long-term financing should be enhanced by building high-level investor confidence, especially with respect to the quality and reliability of financial statements, the essential tools for monitoring investments. High-quality corporate financial reporting ensures proper valuation of publicly traded companies, giving the investors accurate signals with regard to their investments. Furthermore, improving private sector's financial reporting standards and practices represents a parallel effort to the public sector's move toward greater transparency and accountability.
- ***Increased foreign direct investment.*** This can be achieved through greater confidence in, and improved comparability of, financial information.
- ***Enhanced economic integration on regional and international level.*** Botswana's national standards and codes should be further aligned with those of its major trading partners.
- ***Improved access to financing for the small and medium enterprises (SME) sector.*** Banks and venture capitalists should be provided with standardized, useful, and reliable financial information.
- ***Better diversification and investment opportunities for Botswana's privately managed pension funds.*** The funds will gain access to a broader choice of investment on the stock market as the liquidity of these stocks rise.
- ***Ensuring fiscal consolidation.*** Since corporate income tax is determined on the basis of the companies' accounts, the ability of Botswana to increase its revenues from taxation depends on the quality of applicable accounting standards and on effective compliance by corporate tax payers with those standards.

⁵ Botswana Stock Exchange, *BSE Daily Market Report for 21st April, 2006.*

- **Improving governance of state-owned enterprises.** Enforcing strict financial reporting requirements within these entities will allow the Government and the public to become better informed on the financial position and performance of these enterprises.

II. INSTITUTIONAL FRAMEWORK

A. Statutory Framework

5. **The Companies Act (Cap 42:01) requires all companies incorporated in Botswana to prepare annual financial statements.** The Companies Act provides requirements for preparation, presentation, and publication of financial statements, disclosures, and auditing for the companies incorporated under the Act. The Act prescribes the basic contents and form of financial statements, and it requires that the financial statements of the companies, except private limited companies meeting certain thresholds,⁶ be audited annually. The Act does not specifically limit the eligibility of auditors only from the membership of the Botswana Institute of Accountants (BIA).⁷ However, in practice, the BIA members who have a valid practicing certificate undertake audits for the most part.⁸ The Companies Act requires consolidated financial statements to be prepared by the group companies. But it relaxes this requirement on the condition when the directors are of the opinion that “it is impracticable or would be of no real value to the members of the company” or “the result would be misleading or harmful to the business of the company or any of its subsidiaries.”⁹ This may result in possible accounting policy manipulations, resulting in departure from international best practice when preparing consolidated financial statements.

6. **The Companies Act outlines obligations of company directors with regard to the preparation of annual financial statements.** Company directors are responsible for timely preparation of annual financial statements and presentation of these statements at the annual general meeting of the shareholders. Failure by the director to comply with the requirements of timely preparation of financial statements may lead to a fine or imprisonment or both.¹⁰ There are no requirements for submission of audited financial statements to the Registrar of Companies; however, the companies must file annual returns with the Registrar within 42 days after the annual general meeting.¹¹ In practice, many companies do not file the returns in time. And the inadequate capacity of the Registrar’s Office puts constraints on the review of returns for compliance.

⁶ Section 125 of the Companies Act states that a private limited company is not required to appoint an auditor when it meets the following criteria: (a) number of shareholders does not exceed 10; (b) equity investment does not exceed US\$9,250 (P50,000); and (c) none of the shareholders in such company is a company.

⁷ Section 128 of the Companies Act states the following eligibility criteria for a person to undertake audits in Botswana: (a) membership in a body of accountants established by an enactment under the jurisdiction of the Commonwealth; (b) membership in the body of accountants established by an enactment in any country outside the Commonwealth, being designated by the Minister of Trade and Industry of Botswana by order published in the *Gazette*, for the purpose of undertaking audit.

⁸ The Companies Act, now in revision, proposes that only BIA members be eligible for undertaking audit.

⁹ Section 119 of the Companies Act.

¹⁰ Section 115 (4) of the Companies Act provides for a fine not exceeding BWP400 or imprisonment of 12 months, or both.

¹¹ Section 98 of the Companies Act.

7. **There is no legal mandate for the application of IFRS and ISA.** The legislative enactments, including the Companies Act and the Banking Act, do not mandate the application of IFRS and ISA with regard to preparation and audit of financial statements of corporate entities. However, the publicly traded companies and banks prepare the financial statements claiming to follow IFRS and auditors claim that they follow ISA. The Insurance Industry Regulations requires that insurance companies follow “recognized international accounting standards,” without mentioning the issuing authority of such standards.¹² The Government of Botswana is in the process of enacting a revised Companies Act, which is expected to mandate the application of IFRS and ISA for the entities incorporated in Botswana.¹³

8. **The Companies Act entitles the auditors to attend the annual general meeting for answering shareholders’ questions.** Although the auditors are permitted by law to attend the meeting, in practice auditors rarely attend these meetings. As a result, minority shareholders who have issues with audits may not have the opportunity to obtain clarification from the auditor.

9. **A well-regulated banking sector is crucial for Botswana’s efforts to achieve sustained economic development.** The Bank of Botswana is empowered to regulate banks under the Banking Act (No. 13 of 1995) and the Bank of Botswana Regulations. The accounting and auditing requirements, as outlined in the Banking Act, are in addition to those set by the Cap 42:01. The Bank of Botswana requires banking institutions to prepare their financial statements within three months after the financial year-end. It prescribes disclosure requirements, primarily for prudential reporting, that each bank must follow. In some cases, these requirements may conflict with IFRS.¹⁴ The financial statements of banks are audited by an independent auditor, and the appointment of such auditor requires approval by the Bank of Botswana. The financial statements of banks are to be submitted to the Bank of Botswana within 15 days from the date of their preparation. The financial statements of banks are required to be audited. Section 22 of the Banking Act outlines the procedures relating to the appointment of auditors and their obligations in conducting the audit.¹⁵ Auditors are required to comply with the directives and guidelines issued by the Bank of Botswana. And they are obliged to submit a report to the Bank of Botswana clearly indicating the nature of noncompliances with the provisions of applicable acts and guidelines. The Bank of Botswana carries out both on-site and off-site supervision and, in order to discuss matters arising from the audit, holds bilateral and trilateral meetings¹⁶ at least once a year (mostly centered on issues relating to compliance of prudential regulations) with both bank management and the statutory auditors. However, enhancing Bank of Botswana’s technical capabilities would help to ensure better monitoring and enforcement of applicable standards in accounting and auditing of banks in Botswana.

¹² The ROSC team is of an opinion that the regulators must be unambiguous in pronouncing statutory requirements so that it does not leave room for different interpretations by different parties.

¹³ The new Companies Act was enacted by Botswana Parliament in 2004. However, it is still not in effect due to the delay in finalizing regulations relating to the various provisions in the Act.

¹⁴ For instance, the allowance for loan losses is established in accordance with prudential requirements rather than with IAS 39, *Financial Instruments: Recognition and Measurement*; thus interest revenue recognition on bad loans differs from IAS 39 requirements. When prudential requirements conflict with the IFRS, banks are required to adhere to prudential requirements, when reporting to the Bank of Botswana through the statutory returns.

¹⁵ Bank of Botswana is in the process of preparing a set of procedures regarding the audit of banks.

¹⁶ The bilateral meetings are held with the banks and separately with the statutory auditors; while in the trilateral meetings; the Bank of Botswana, statutory auditors, and the banks are represented.

10. **The Banking Act requires each bank to form an audit committee.** The board of directors of each bank is required to appoint an audit committee, consisting of three members, among whom the majority must not be the employees of the bank. Functions of the audit committee include determining the adequacy of internal control systems, the effectiveness of risk assessment process and introducing measures that enhance the credibility and objectivity of financial statements of banks.

11. **There are additional reporting requirements for the banks operating in Botswana.** In order to ensure the compliance with the Banking Act, the Bank of Botswana requires each bank to submit a statement of its assets and liabilities, together with other statutory returns, prepared in accordance with generally accepted accounting practices in Botswana within 21 days after the end of each calendar month. Failure to comply with this requirement may lead up to a fine of US\$1,830 (BWP 10,000). Also, the central bank has the authority to call for additional information in accordance with the requirements set out in Section 21 of the Banking Act.

12. **The Registrar of Insurance, under the Insurance Industry Act (Cap. 46:01), regulates the financial reporting practices of insurance companies.** Insurance companies must comply with requirements set by the Registrar of Insurance of Botswana in preparing and presenting their financial statements. The financial statements of insurance companies must be audited by an auditor and approved by the Registrar of Insurance, and the audited financial statements should be submitted to the Registrar within four months from the financial year-end. The insurance companies operating in Botswana are also required to submit audited statements of solvency to the Registrar of Insurance.

13. **Tax law does not require submission of audited financial statements with corporate income tax return.** Section 71 of the Income Tax Act (No. 12 of 1995) requires that annual tax return of a business entity “shall be accompanied by a copy of the accounts of the business together with a reconciliation of the accounts with the chargeable income disclosed in that return in relation to the business.” Although tax laws and regulations do not provide any explanation about the term “accounts,” in practice this is used to mean corporate financial statements. When a business owner prepares the accounts, he is required to provide a certificate stating the nature of the books of account and those documents from which the accounts were prepared; and whether the accounts present a true and fair view of the profits from the business for the accounting period. When the accounts are prepared by a person other than the owner, the preparer is required to provide a certificate stating the extent of the examination made of the books of account and supporting documents; and whether or not the entries in those documents and books of account disclosed the true nature of every transaction (to the extent one is able to ascertain from the examination). Currently, the Botswana Unified Revenue Service is drafting a Tax Administration Bill that, when introduced, will require any person/enterprise having annual turnover of BWP12 million or more to attach to his/its income tax declaration, an audited financial statement prepared by an independent chartered or certified accountant. The same Bill also introduces a provision for registration of tax consultants with the Botswana Unified Revenue Service which would make them eligible for preparation of tax declaration on behalf of their clients. Tax consultants earning necessary qualifications from Botswana Accountancy College and qualified accountants having BIA membership will be eligible for inclusion in the Revenue Service’s list of approved tax consultants. Other persons will be registered by the Commissioner General of Botswana Unified Revenue Service after a qualifying examination on such terms and conditions as prescribed by the Commissioner General. The Botswana Unified

Revenue Service has been planning to arrange support for the establishment of a professional organization of well-trained tax consultants.

14. **The Collective Investments Undertaking (CIU) Act (No. 20 of 1999) regulates the financial reporting practices of undertakings for collective investments.** The CIU Act requires investment management companies to publish their financial statements both annually and mid-yearly. The annual financial statements must be published within four months from the financial year-end and the mid-yearly financial statements should be published within two months from the end of the financial midyear. The annual financial statements must be audited, whereas there is no requirement for audit for the midyear financial statements. The audited annual financial statements and unaudited midyearly financial statements need to be submitted to the Bank of Botswana.

15. **The Pension and Provident Funds Act (Cap. 27:03) provides for the regulation of pension and provident funds.** Every registered fund in Botswana is required to maintain necessary books of accounts in conformity with activities of the fund. The annual financial statements of pension and provident funds are required to be audited, and the audited financial statements must be submitted to the Registrar of Pension and Provident Funds within six months from the financial year-end.

16. **The Constitution of the Republic of Botswana empowers the Auditor General to conduct audits of state-owned enterprises (SOE).** Section 124 of the Botswana Constitution provides for functional autonomy of the Auditor General in discharging responsibilities with regard to undertaking audit functions of state-owned enterprises. The SOE audits can be undertaken directly by the Office of the Auditor General or through statutory audit firms that are appointed by the Auditor General. For appointing the statutory audit firms, the Auditor General floats public tender and considers their international affiliation, years of experience, and number of staff. The Auditor General submits the audit reports to the Minister of Finance, who in turn, places those reports before the National Assembly of Botswana.

17. **The Auditor General does not prepare terms of reference requiring the application of International Standards on Auditing in an SOE audit.** Although statutory auditors of state-owned enterprises state in their audit opinion that the audits are conducted in accordance with ISA, there is no directive in the terms of reference for SOE auditors that the audit must be carried out in accordance with ISA. However, evidence suggests that this statement does not always corroborate with the practice. The audit conducted by the Office of the Auditor General primarily focuses on compliance of rules in governing SOE financial management. The government staff responsible for providing guidance on conducting SOE audits needs better exposure to relevant public sector accounting and auditing pronouncements by the International Federation of Accountants (IFAC).

18. **Botswana Stock Exchange listing requirements require presentation of interim financial statements.** As per the listing requirements, listed companies must present unaudited quarterly financial results according to a prescribed format and must be circulated among the shareholders. The listed companies are also required to submit their annual financial statements, prepared in accordance with IFRS and audited in accordance with ISA.

19. **Botswana does not have any coordinated legal enactment to regulate the non-bank financial institutions.** Due to this, the financial reporting and auditing of non-bank financial institutions in the country remains practically unregulated. However, the Government is in the process of enacting legislation with regard to the non-bank financial institutions.

20. **Accountants Act 1988 gives legal mandate to the Botswana Institute of Accountants for regulating the accountancy profession.** The Botswana Institute of Accountants was established by the Accountants Act 1988. The fundamental objective of the Institute is to act as a body for determining and maintaining adequate professional standards for its members and awarding the license for its members engaged in the public accounting practice. The Botswana Institute of Accountants functions through its Council, which comprises 2 nominated and 6 elected members. The major statutory functions of the BIA Council include designing and implementing policies regarding admission of membership, administering programs for members' professional development, ensuring adherence to professional ethics and standards, and taking disciplinary action against erring members. The Council elects the BIA president for a two-year term. The Botswana Institute of Accountants is a member of the IFAC and Eastern Central and South African Federation of Accountants (ECSAFA).¹⁷

B. The Profession

21. **All BIA members hold foreign accountancy qualifications.** The BIA membership is obtained by being a member of a recognized professional accountancy body.¹⁸ The Botswana Institute of Accountants recognizes foreign professional accountancy qualifications of the recognized bodies for membership without requiring further examination. At present, all members of the Botswana Institute of Accountants hold foreign accountancy qualifications, of which a large majority is qualified under the Association of Chartered Certified Accountants (ACCA) of the United Kingdom.

22. **A relatively large number of Botswana citizen professional accountants are not members of the Botswana Institute of Accountants.** As of December 31, 2005, the total BIA membership was 604, of which only 82 were citizens of Botswana.¹⁹ Among these members as of April 2006, only 35 were involved in public practice; 6 of the 35 were citizens of Botswana.²⁰ Botswana has about 250 citizen professional accountants who hold BIA-recognized qualifications. However, the low interest of citizen professional accountants in obtaining BIA membership casts doubt on what value could be derived from the membership of this professional body.

¹⁷ ECSAFA members include professional accountancy bodies of Botswana, Democratic Republic of Congo, Ethiopia, Kenya, Lesotho, Malawi, Mauritius, Namibia, South Africa, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe.

¹⁸ BIA recognizes professional qualifications obtained from accountancy professional bodies of Australia, England and Wales, India, Ireland, Kenya, Nigeria, Malawi, Scotland, South Africa, Sri Lanka, Uganda, Zambia, Zimbabwe, as well as the Association of Chartered Certified Accountants, and Chartered Institute of Management Accountants of the United Kingdom.

¹⁹ This figure was obtained from the 2005 Annual Report of the Botswana Institute of Accounts. This figure includes BIA-recognized qualified accountants for Associate and Fellow membership.

²⁰ 2005 Annual Report of the Botswana Institute of Accounts.

23. **The members of international accounting firm networks dominate the audit market.** There are 18 audit firms operating in Botswana, including the members of the large international accounting firm networks.²¹ The local members of international firm networks audit most of the publicly traded companies, banks, insurance, and other large corporate entities.²² The local firms are small in size, mainly with one partner; and they mostly concentrate on tax cases, along with performing bookkeeping services and conducting audits for small companies.

24. **Certain factors appear to adversely affect auditors' accountability.** Botswana's relevant laws do not provide for significant penalties against negligent auditors.²³ Although the Botswana Institute of Accountants regulations require practicing accountants to take professional liability insurance; in reality many accountants do not avail this cover. This tends to limit auditor's accountability and in many cases has created an environment of unconcern toward risks of malpractice suits by auditors. Moreover, Botswana has not yet experienced any litigation against auditors.

25. **There are cases when management tends not to take full responsibility for preparing financial statements.** Some stakeholders have cited few instances when company management has either partly or fully relied on auditors for preparation of financial statements. This may be due to the lack of qualified professionals available for preparing financial statements and corporate management's misperception about the role of auditors. The latter point arises from company directors' lack of knowledge on auditing procedures, thus impairing significantly their fiduciary responsibility. In order to be compliant with the independence rules, auditors should not audit the financial statements that they prepare.

26. **The public accountancy profession in Botswana is at an early stage of development and the Botswana Institute of Accountants lacks adequate technical capacity to move the profession forward.** The Botswana Institute of Accountants has so far not been able to project its image as an effective regulator of public accountancy profession in Botswana. This is primarily due to the lack of BIA's technical capabilities and scarce governance structure. The BIA governance primarily rests on volunteer members. Its Disciplinary Committee is not proactive with respect to disciplining errant public practitioners. It has not yet implemented adequate quality assurance arrangements with respect to performance of its members. The Botswana Institute of Accountants provides no guidance to its members on how to improve the quality of audits. Furthermore, the Botswana Institute of Accountants does not have technical resources to provide guidance to its members on important issues for implementing IFRS and ISA.

27. **The mandate of the Botswana Institute of Accountants does not specifically include serving the public interest.** The Accountants Act 1988 does not emphasize the protection of public interest by the auditing profession. The auditing profession's "public" consists of clients, credit grantors, governments, employers, employees, investors, business and financial communities, and others who all rely on the objectivity and integrity of auditors.

²¹ Botswana Institute of Accountants, April 2006.

²² In reviewing 36 financial statements covering banks, insurance companies, and listed companies, the ROSC team found that all these financial statements were audited by the members of international accounting firm networks.

²³ The Companies Act and the Banking Act should clearly specify stringent sanctions not for noncompliance with professional standards.

28. **The enforcement mechanism for a code of ethics is not adequate.** The Botswana Institute of Accountants has a code of professional conduct that is in line with the IFAC Code of Ethics for Professional Accountants. However, actions against violators of specific independence principles as provided in the IFAC Code are not enforced properly.

29. **In some cases, the financial statements of corporate entities are not easily available.** The ROSC team found some difficulties in obtaining financial statements. It was even not easy to obtain some financial statements from the Botswana Stock Exchange, which ideally should have financial statements of all publicly traded companies. This problem indicates the relatively low importance attached to the use of financial information in the decision making process. From the discussions held during the ROSC due diligence mission, it was inferred that many corporate entities view the preparation of financial statements as merely ritual and mainly necessary either for taxation purpose or apparent compliance with regulatory requirements.

C. Professional Education and Training

30. **Accountancy education and training lag behind the needs of the rapidly developing Botswana economy.** The accounting curriculum at the University of Botswana does not focus on IFRS and ISA in their accountancy degree programs. The curricula are mainly restricted to teaching accounting technicalities and basic procedural aspects of auditing. Thus students do not obtain required exposure of international best practice with regard to accounting and auditing. Moreover, most accounting textbooks lack adequate focus on the international dimension of accounting and auditing, in particular the practical application of IFRS and ISA. The curriculum at the Botswana Accountancy College is focused merely on helping students pass the ACCA examination. It does not adequately provide broader exposure to the necessary conditions for functioning as professional accountants; being capable of handling challenges; and, particularly in line with emerging international developments, considering the implications of such challenges in the context of Botswana.

31. **The Botswana Institute of Accountants requires but does not effectively enforce participation of members in continuing professional development (CPD).** Currently BIA members are required to participate in the CPD program. However, the Botswana Institute of Accountants does not have any mechanism to enforce continuing professional development as a requirement of professional membership. The practical delivery of this program does not conform to the latest IFAC requirements. The CPD seminars focus more on general issues rather than industry specific practical application of IFRS and ISA. Many accountants in the country are not aware of the necessity and implications of continuing professional development with regard to discharging their professional obligations and as a means for qualified professional accountants to up-to-date knowledge on recent developments in financial reporting, auditing, and other allied topics.

32. **Botswana does not have its own professional examination.** In partnership with ACCA, the Botswana Institute of Accountants maintains a student register under a joint examination scheme. As of April 2006, there were 1,667 students registered and most of them are studying to qualify under the ACCA. Training is provided by tuition providers, of which only the Botswana Accountancy College is so far is accredited by ACCA. The Botswana Institute of Accountants has inadequate facilities for the registered students.

33. **Practical training arrangements for professional accountants need to be strengthened.** Prior to obtaining the practicing license, a candidate is required to have 2 years of membership with Botswana Institute of Accountants and 30 months of practical training under the supervision of a qualified person in an approved training provider. The Botswana Institute of Accountants does not have effective mechanism to screen practical training providers on their suitability to provide appropriate experience and does not monitor the quality of practical training.

34. **Professionals working in small accountancy firms largely lack capacities to undertake audit as per international best practices.** These practitioners are constantly struggling to keep their client base and earn enough to stay afloat. Many practitioners in small- and medium-size firms in Botswana are handicapped by their lack of access to current literature on the applicable accounting and auditing standards and codes. Such a situation could limit the quality of auditing in the country.

35. **The university education in accounting lacks adequate coverage on professional values and ethics.** Formal education can significantly sharpen aspiring accountants' awareness of ethical problems and can influence their reasoning and judgment with respect to ethical dilemmas. For this reason, the IFAC recommends teaching professional ethics separately in the pre-qualifying education of professional accountants.²⁴ However, the University of Botswana's accounting curriculum does not provide adequate coverage on professional ethical dimensions.

D. Setting Accounting and Auditing Standards

36. **There is no standardsetting arrangement in Botswana.** As a national accountancy professional body, the Botswana Institute of Accountants does not have any arrangement in place for adoption and dissemination of IFRS, ISA, or any other accounting and auditing standards. There is a general perception that since the Botswana Institute of Accountants is a member of IFAC, then BIA members are required to follow IFRS and ISA. In practice, the Botswana Institute of Accountants does not take effective steps to ensure that members do observe these standards.

37. **The Botswana Institute of Accountants should implement important standardsetting functions to ensure smooth application of IFRS and ISA.** Although these standards are set respectively by the International Accounting Standards Board (IASB) and the International Auditing and Assurance Standards Board (IAASB) of IFAC, in compliance with the BIA mandate to advance the accountancy profession in Botswana, the Institute is expected to discharge the following responsibilities:

- Actively contribute to the process of drafting standards, including revisions of standards at the IASB and IFAC levels;
- Establish a due process through which IFRS and ISA can be implemented locally;

²⁴ IFAC IES 4, *Professional Values, Ethics, and Attitudes*; and IFAC Educational Guideline No. 10, *Professional Ethics for Accountants: The Educational Challenge and Practical Application*.

- Disseminate applicable standards and related implementation guidance to the members of the profession and other stakeholders in order to ensure that implications of these standards are understood properly.

E. Ensuring Compliance with Accounting and Auditing Standards

38. **There is no effective mechanism for enforcing financial reporting requirements, except to a certain extent in banks.** In many cases, the company directors are not fully aware of their responsibilities for ensuring that financial statements are true and fair. The regulators in general suffer from capacity constraints for ensuring compliance with applicable accounting and auditing standards. Compliance with relevant standards appears to remain largely a voluntary matter in Botswana. However, the enforcement mechanisms that are instituted by the Bank of Botswana seem to be relatively more effective.

39. **The Botswana Institute of Accountants lacks a sound quality assurance mechanism for statutory auditors.** Good audit quality implies adding credibility to published financial information and adding value and protection to shareholders, investors, creditors, and other stakeholders. However, the Botswana Institute of Accountants has not implemented a system of quality assurance that is organized in a manner to ensure high-quality audit practice in Botswana. In compliance with IFAC requirements, a country should develop and enforce quality control guidelines, requiring audit firms to put in place the policies necessary to provide reasonable assurance of conforming to professional performance standards. An independent review mechanism to ensure that audit firms have effective quality control arrangements. The Botswana Institute of Accountants has recently introduced a review exercise conducted by the Independent Regulatory Board for Auditors (formerly, the Public Accountants' and Auditors' Oversight Board), South Africa. In practice, this does not encompass audit practice review. It focuses on independent auditor's performance instead of looking at the performance of audit firms. This arrangement falls short of international best practice. Moreover, there is no effective mechanism in place ensuring BIA members' compliance with established auditing standards.

40. **Regulators concentrate more on issuing than on enforcing accounting requirements.** The regulatory bodies in Botswana lack capacity to monitor compliance with accounting and financial reporting requirements and have not put in place an efficient and effective mechanism to monitor and enforce accounting and auditing requirements. The following summarizes the problems associated with the regulatory bodies:

- *Office of the Registrar of Companies* suffers from lack of capacity to conduct effective review of financial statements and thus not being able to identify real violations of the accounting and reporting requirements.
- *Insurance regulator*, due to the lack of technically qualified people, primarily relies on auditor reports for ensuring compliance with the applicable standards by the insurance companies instead of independently reviewing the financial statements. Such approach seriously restricts the effective enforcement actions.

- **Office of the Auditor General** also relies on the auditors' report in monitoring compliances with applicable financial reporting standards. This Office does not have an adequate number of technically qualified people who can review the financial statements and identify accounting and auditing noncompliance. The job security of high officials of parastatals is linked with the performance of these enterprises. Although this seems to be an ideal arrangement, many stakeholders believe that in the absence of effective enforcement mechanism such context could potentially be used as a vehicle for inflating profits through accounting policy manipulations in favor of retention of employment.

41. **The Botswana Stock Exchange does not have any monitoring and enforcing mechanism with respect to accounting and auditing standards.** The Botswana Stock Exchange is generally satisfied if a publicly traded company issues financial statements on a timely basis. It does not have any arrangement to monitor compliance with the financial reporting standards. It also does not make any effort to improve the quality of financial reporting by the publicly traded companies. The Botswana Stock Exchange suffers from capacity constraints in discharging its responsibilities as a self regulatory organization of capital market.

42. **Nonavailability of implementation guidance limits compliance with applicable standards.** In Botswana, neither the professional body nor other organizations issues guidance on implementation of IFRS and ISA. This has contributed in some cases to the knowledge gap among preparers and auditors of financial statements. Consequently, it raises a possibility of applying the standards in inconsistent manner and resulting in the compliance gaps between IFRS and ISA requirements and actual practices. With BIA-implemented guidance, the accountants and auditors can comply with applicable rules and standards. This guidance should incorporate cases and illustrations relevant to Botswana and focusing on industry-specific experiences.

III. ACCOUNTING STANDARDS AS DESIGNED AND AS PRACTICED

43. **Companies and their auditors face a number of practical difficulties in implementing IFRS.** Discussions by the ROSC team with representatives of companies and auditors suggested some IFRS implementation problems. Most of these problems arise from the lack of adequate expertise among the corporate accountants who find it difficult to prepare financial statements in accordance with the IFRS requirements. Moreover, Botswana accountants in some cases lack industry-specific knowledge with regard to application of relevant IFRS. This constrains proper application of the IFRS. The ROSC team observed this problem is more pervasive in the insurance industry in Botswana.

44. **Evidence suggests the lack of adequate capacities to prepare IFRS-based financial statements.** The ROSC team's discussion with company management during its due diligence mission suggested that some companies might not have adequate resources or ability to prepare IFRS-based financial statements. It is possible, therefore, that in these cases the auditors either prepared or provided substantial assistance with the preparation of such financial statements. This raises a significant independence issue that was subsequently confirmed on a few occasions as to whether the actual accounting policies followed by the companies comply with the

“boilerplate” disclosures in IFRS-based financial statements. In an instance with a publicly traded company, the ROSC team found that every page of the published financial statements carried the auditors’ business logo. This provides a strong indication that this company’s financial statements were prepared by the auditors.

45. **Although the quality of audited banks’ financial statements is generally good, there may be differences between disclosed accounting policies and actual practices.** Despite the fact that the quality of financial statements of Botswana banks is relatively good compared to other corporate entities, there exist differences between disclosed accounting policies and actual practices. For example, banks generally calculate impairment in the unsecured portion of loans and receivables on the basis of provisioning matrix approved by the Bank of Botswana. This calls for a range of fixed provisioning rates for the number of days a loan has been classified as nonperforming. This methodology may not comply with IAS 39, *Financial Instruments: Recognition and Measurement*, which requires impairment or loan losses to be calculated as the difference between the asset’s carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred), and discounted at the financial asset’s original effective interest rate. The ROSC team is concerned that the disclosed accounting policy seems to be based on compliance with IAS 39 when the banks are in effect applying a different policy. Furthermore, some degree of noncompliances with IAS 32, *Financial Instruments: Disclosure and Presentation*, and IAS 39—requirements relating to the measurement and disclosure of financial assets—indicates the need for capacity building in this area. The ROSC team undertook a series of discussions with regard to these issues with management, auditors, and regulators who acknowledged the need for targeted capacity building. Although after reviewing the financial statements of banks, in many cases the ROSC team could not identify any major noncompliance issues of material nature in appearance that could mislead the users of financial information. Capacity building in this area is no less important for ensuring sustainability of a strong corporate financial regime.

46. **The review of sample audited financial statements issued by corporate entities in Botswana evidenced some compliance gaps.** Compliance gaps refer to the differences between applicable standards and actual practice. The World Bank ROSC team reviewed 36 sets of financial statements (all 5 commercial banks, 1 merchant bank, 1 building society, 4 insurance companies, 17 listed companies, and 8 parastatals) and conducted interviews with corporate accountants, auditors, and regulators. The review focused on issues of presentation and disclosure but did not cover compliance with “recognition and measurement” requirements of accounting standards, which is not detectable through a review of financial statements. Selected compliance gaps found in the review are presented below:

- **Related party.** Many entities, including some financial institutions, omitted important disclosures such as the relationship and transactions, pricing policies, the volumes of related party transactions, and the corresponding amounts. Adequate disclosure of material related party relationships and transactions is essential to users’ understanding of a company’s financial position and results, and for minority investors’ confidence that they will receive a fair treatment. Inadequate disclosure in this regard leads to noncompliance with IAS 24, *Related Party Disclosures*.

- **Consolidated financial statements.** Many companies did not make adequate disclosures with regard to consolidation. Except in a few cases, the note on consolidation policy did not clearly state which subsidiaries were included or not included in the consolidated financial statements. Moreover, in a large number of cases, the consolidated financial statements did not contain a listing of significant subsidiaries, including the name, country of incorporation or residence; proportion of ownership interests; and, if different, proportion of voting power held. Most companies did not provide accounting policy disclosures on the treatment of associates in the consolidated financial statements. Furthermore, in some cases, the method used to account for subsidiaries in the parent's separate financial statements was not described, as required by IAS 27, *Consolidated and Separate Financial Statements*.
- **Employee benefits.** Inadequate disclosure as to whether actuarial or any other forms of valuation had been made to quantify outstanding liabilities for post-employment benefits and thus not adhering to the requirements of IAS 19, *Employee Benefits*.
- **Contingent liabilities.** Some companies did not adequately disclose contingent liabilities, making their financial statements noncompliant with IAS 37, *Provisions, Contingent Liabilities, and Contingent Assets*.
- **Segment reporting.** For the great majority of the enterprises, segment reporting in the financial statements was inadequate even though the notes to the financial statements indicated that preparers (and the auditors) of these financial statements were aware of the IAS requirements. For example, in the notes on significant accounting policies, some companies stated that segment reporting was not applicable as the companies had no distinguishable reportable segments; these companies however did have wholly owned and majority-owned subsidiaries that suggested at least a few geographical segments and product lines, and at least more than one business segment. For companies that made segmental reporting, detailed information was not provided for revenues, operating profit, total assets, and total liabilities of different segments. The lack of information in each of these areas suggests that many companies' financial statements failed to comply with the requirements of IAS 14, *Segment Reporting*.
- **Property, Plant and Equipment.** In cases where fixed assets were revalued, detailed IAS-required disclosures—such as measurement bases used for determining the gross carrying amount and reconciliation of the carrying amount at the beginning and at the end of the period—were not available and thus noncompliant with IAS 16, *Property, Plant, and Equipment*.
- **Disclosures in financial statements.** Contrary to the requirement of IAS 30²⁵, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, some financial institutions did not make adequate disclosure with regard to (a) gains/losses from dealings in securities and foreign currencies, (b) methods of

²⁵ IAS 30 being replaced by IFRS 7, which will be coming into effect in January 2007.

calculating fair values of each class of financial assets and liabilities, (c) information relating to loans and advances on which interest is not being accrued, and (d) information on the amounts set aside for general banking risks. In addition, there are also inadequate disclosure regarding (e) significant concentration in the distribution of assets, liabilities, and off-balance sheet items; (f) amount of significant net foreign currency exposure; (g) contingencies and commitments arising from off balance sheet items; and (h) irrevocable commitments to extend credit.

- The accounting policies and disclosures in financial statements of some enterprises did not include several important disclosures, such as the revaluation policy for noncurrent assets, method of calculating impairment losses, and amount due from related parties.
- Although there were indications that some sample companies had long-term borrowings from banks, disclosure on restricted assets pledged as securities was lacking. Interviews also indicated that indicators of impairment of assets and evidence to support the recoverable amount are mostly unreliable.

47. General purpose financial statements are often influenced by taxation considerations. In order to satisfy the requirements of taxation authorities with regard to the recognition of taxable revenues and deductible expenses, the preparers of general purpose financial statements often tend to deviate from applicable financial reporting standards, preferring to follow the taxation regulations. As a result, treatment of certain items in the general purpose financial statements may be different from that which should apply under the IFRS. The ROSC team through facilitated discussion with officials of the Botswana Unified Revenue Service observed that many preparers of financial statement manipulate accounting policies in revenue recognition and inventory valuation to reduce their tax liabilities.

IV. AUDITING STANDARDS AS DESIGNED AND AS PRACTICED

48. In general, application of auditing standards differs among audit firms of different sizes. To assess actual auditing practices, the ROSC team interviewed practicing auditors and senior leaders of the auditing profession. Facilitated discussions were conducted with the partners representing large- and medium-size audit firms. It appeared that auditors of firms associated with international accounting firm networks generally tend to follow auditing standards. Nevertheless, there were instances where some of these firms apparently could not ensure a proper quality audit. However, smaller audit firms find it difficult to bear the cost of implementing auditing standards in an adequate fashion. Various stakeholders suggested that improved audit supervision by the audit partners, instead of relying significantly on the trainee students, would improve the application of auditing standards.

49. The development and dissemination of implementation guidance will facilitate better application of auditing standards. Most of the audit firms, except those associated with the international accounting firm networks, do not have access to quality audit practice manuals. In the absence of proper guidance, auditors generally find it difficult to deal with important

concepts such as audit risks, audit planning, internal control, materiality, documentation, and going concern. This difficulty is further aggravated when the auditors do not have adequate industry-specific knowledge. Improvements in the audit quality can largely be achieved by the development and dissemination of practical guidance on the implementation of auditing standards.

50. **There is a concern about close relationships between auditors and clients.** Many stakeholders expressed concerns about close relationship between some auditors and their clients. This may cause undue influence on auditors, resulting in noncompliance with appropriate audit procedures. It was observed that in some cases, auditors have the tendency of bringing material deficiencies to the attention of management through management letter rather than giving qualified audit opinion.

51. **Individuals without practicing license are providing attestation services.** From various facilitated discussions with auditors and other stakeholders, the ROSC team gathered that some individuals without having practicing license from the Botswana Institute of Accountants are providing attestation services. In fact, the Companies Act of Botswana allows persons without having appropriate professional qualification to undertake audit. Such legal provisions, coupled with the absence of effective enforcement mechanism, tend to lead to serious noncompliance with regard to assuring audit quality.

52. **In many cases, actual practices diverge from ISA.** The following are the few examples of auditing noncompliance in Botswana:

- Audit risk and audit materiality are not determined in accordance with the standard and not considered when conducting the audit.
- Documentation practices fail to provide audit evidence to support the audit opinion, mostly in the audit of small and medium enterprises.
- Meaningful analytical procedures are difficult due to absence of industry information.
- Apart from the firms with international affiliations, most firms due to lack of capacity do not comply fully with ISA on quality control. Second partner peer reviews are generally not done.
- Auditors sometimes find it difficult to obtain audit evidence and so rely on management representations, particularly for fair values, impairment of assets, related party transactions, segment information, and contingent liabilities.
- Professional clearance (communication with retiring auditor) is not always done, as most retiring auditors do not respond to such requests.
- Unlicensed auditors competing in the market put pressure on audit fees, adversely affecting the quality of the audit.

- Shortage of expertise in information technology (especially in medium and small firms) erodes audit quality.
- It is not always possible to obtain audit evidence that the opening balance do not contain material misstatements that affect the current period's financial statements. Typically the incoming auditor does not liaise with the predecessor auditor and review their working papers.

53. **Some cases of noncompliance with IFRS noted through the ROSC review of audited financial statements were not revealed in the corresponding auditors' reports.** Some of the departures identified, especially where disclosure requirements conflicted directly with explicit provisions of IFRS, should have given rise to qualifications in the audit reports. For example, a member of an international accounting firm network did not qualify the audit report where there was a clear departure from the disclosure requirements of IAS27, *Consolidated and Separate Financial Statements*. In another instance, another member of an international accounting firm network gave a clean audit opinion despite noncompliance with the requirements of IAS 14, *Segment Reporting*. In both cases, the auditor opined that the financial statements were prepared "in accordance with International Financial Reporting Standards."

V. PERCEPTION OF THE QUALITY OF FINANCIAL REPORTING

54. **There is a general perception that financial reporting practices have improved over the years.** Interviews with various stakeholders, including academics, professional accountants, bankers, and regulators revealed that financial reporting practices in Botswana have improved over the past years due to increased efforts to observe IFRS. Parallel to this, many expressed concerns about the independence of practicing auditors and the inadequacy of enforcement mechanisms.

55. **The quality of audited financial statements is still a concern to investors and other users.** There was a widespread view among various stakeholders that the low-level skills among accounting professionals and the lack of enforcement mechanisms contribute to noncompliance with established accounting requirements and auditing standards. Most interviewees shared the opinion that improving the quality of financial reporting requires a robust regulatory regime and effective enforcement mechanisms for ensuring compliance with accounting and auditing standards and auditors' professional code of ethics.

56. **The users view that financial statements audited by large firms meet higher standards of financial reporting.** Interviews and discussions with various stakeholders, including bankers, revealed that a high degree of reliance is placed on the financial statements that are audited by the members of international accounting firm networks. Contrary to that position, some stakeholders considered an audit in most cases does not add value but is only a requirement for the company to win a contract or to obtain a bank loan.

57. **Many stakeholders perceive that auditors' involvement in both audit and tax advocacy may threaten auditor independence.** In Botswana, statutory auditors are not

prohibited from providing some nonaudit services, including tax advocacy and representation before tax authorities. There is a strong perception among the stakeholders that such involvement may pose a threat to auditors' independence.

VI. POLICY RECOMMENDATIONS

58. The following policy recommendations arising from the ROSC Accounting and Auditing (ROSC A&A) assessment have been discussed with the National Steering Committee.²⁶ The National Steering Committee, comprising various in-country stakeholders, was formed by the Ministry of Finance and Development Planning (MFDP) to facilitate the ROSC A&A exercise in Botswana. The policy recommendations provide input for preparing and implementing a comprehensive Country Action Plan geared toward establishing a high-quality corporate financial reporting regime in Botswana. The Country Action Plan will identify specific activities to be undertaken for the implementation of the ROSC recommendations under MFDP supervision and possibly with assistance from the international development partners. Insofar as the recommendations would support some of the key development objectives set by the Government of Botswana, a wide range of country stakeholders would benefit from them.

59. The policy recommendations are based on a holistic approach to strengthening the corporate financial reporting regime of Botswana. This has led to development of recommendations covering various areas which may appear costly in the context of the size of Botswana economy. It is envisioned that the cost of implementing many of the policy recommendations would be substantially reduced, and there will be increased benefits through subregional integration. Wherever applicable, the following policy recommendations emphasize the case for strengthening capacity of national institutions with the support of regional and subregional institutions. The underlying thrust of the policy recommendations is to integrate with regional and subregional initiatives, wherever applicable, in order to strengthen accounting and auditing practices in Botswana. The World Bank, in collaboration with other institutions, has been supporting activities on the development of relevant subregional initiatives in the Africa Region.

Capacity Building

60. **Strengthen Botswana Institute of Accountants through twinning arrangement and subregional integration initiatives.** The BIA governance structure needs to be improved and its capacity needs to be built in line with international good practice. In this regard, necessary steps should be taken to fully comply with the 7 IFAC Statements of Membership Obligation. The Botswana Institute of Accountants should carry out its responsibilities for adoption and dissemination of IFRS and ISA. Also it should facilitate the arrangement for developing simplified financial reporting requirements for small and medium enterprises in Botswana. The Botswana Institute of Accountants should enhance its capacity by seeking cooperation with other professional bodies in the Southern African Development Community (SADC) region²⁷ and by

²⁶ The meeting of the National Steering Committee was held on April 27, 2006, at Gaborone, Botswana.

²⁷ SADC region includes Botswana, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe.

establishing twinning arrangements with a developed professional accountancy body. A long-term twinning arrangement with a strong twinning partner would foster best practice transference to the Botswana Institute of Accountants.

61. The Botswana Institute of Accountants needs to be proactive with regard to ensuring compliance with auditing requirements. The BIA should implement an effective mechanism to ensure that its members comply with the Code of Ethics for Professional Accountants. More stringent disciplinary actions and effective periodical review for members, in addition to the reviews to be carried out by statutory regulatory bodies, should be undertaken to monitor detection of ethical misconduct or violations. Also the legislative enactment governing the Botswana Institute of Accountants should clearly spell out its role in serving public interests as a professional accountancy body. The Botswana Institute of Accountants should develop adequate technical resources to guide its members in implementing IFRS and ISAs properly.

62. Take steps for improving the capacity of regulators of banks and insurance companies. The Bank of Botswana and insurance regulators should further strengthen their capacities to conduct in-depth review of financial statements of banks and insurance companies for determining the degree of compliance with the applicable standards, not only in appearance but also in substance. Capacity improvement of these regulators should focus on recruiting technically qualified personnel, practical training on implementation of IFRS and ISA, and providing administrative support and logistical arrangements. Furthermore, these regulators should be independent and have adequate authority to impose administrative sanctions for infractions. In order to supplement capacities of banking and insurance regulators in particular to detect infractions, auditors should be prepared to play a “whistle-blowing” role in order to provide early signals for initiating necessary corrective measures by the regulators. Since the financial sector’s vulnerabilities can have quick multiplier effects, appropriate whistle-blowing by auditors would help to make the financial sector regulation more efficient and effective. Added to this benefit, there could be a synergy between the requirements of prudential regulations and those for the general purpose financial reporting.

63. Augment the powers and capacity of the Office of the Registrar of Companies for enforcing accounting standards and financial reporting requirements. Efforts should be made to broaden the powers of the Registrar of Companies in order to effectively monitor and enforce applicable accounting, auditing, and financial reporting requirements primarily for the public interest entities. New legislation should give the Registrar adequate power to require submission of audited financial statements by public interest entities and financial statements (not mandatory audited) by all other companies incorporated in Botswana. In order for the Registrar of Companies to carry out its supervisory and enforcement functions, a division should be set up with adequate numbers of technically qualified people who are charged with the following: (a) reviewing financial statements filed with the Registrar; (b) requesting any additional information from companies and their auditors; (c) conducting periodic off-site inspections at companies; and (d) imposing legal and administrative sanctions for noncompliance. To ensure the transparency of the process, deter enterprises from not complying, and foster users’ confidence in the effectiveness of the regulatory regime, the Registrar of Companies would report each calendar year on enforcement actions conducted, issues addressed, and any sanctions taken.

64. **Strengthen the capacity of the Office of the Auditor General.** It is important to establish a high-quality corporate financial reporting practice in state-owned enterprises. Immediate steps should be taken to recruit experienced professionally qualified accountants who will be responsible for overseeing the audit of state-owned enterprises carried out by the statutory auditors. The staff of the Office of the Auditor General should be given adequate training on practical implementation of IFRS and ISA and IFAC pronouncements on public sector accounting.

65. **Take steps for building capacity of audit firms to improve audit quality.** There should be an initiative for assisting small- and medium-sized audit firms to develop capacity for providing quality audit and assurance services, and also to take necessary steps for developing viable audit practices through merger or establishment of network arrangement. Following a review of audit quality and detailed discussions with the partner(s) of individual audit firms, specific recommendations should emerge and steps taken to ensure compliance with IFAC requirements on audit quality control, and to assist individual audit firms in building capacity regarding quality assurance arrangements.

66. **Build technical capacity of the Botswana Stock Exchange.** It is crucial to enhance the BSE capacity for ensuring the effective monitoring of accounting and auditing requirements for publicly traded companies. This will compliment the Government's efforts to build a well-regulated capital market. The capacity building should focus on recruiting adequate numbers of technically qualified people who will have the expertise to identify accounting and auditing noncompliance.

67. **In essence, the capacity-building exercise should focus on the following measures through regional integration initiatives wherever applicable:**

- Arranging a twinning partner for the Botswana Institute of Accountants aimed at improving the governance and providing technical support for its functioning as an effective regulator of the accountancy profession in Botswana;
- Recruiting technically qualified people in the Office of the Registrar of Companies, Bank of Botswana, Office of the Registrar of Insurance, and Office of the Auditor General;
- Providing meaningful IFRS theoretical and practical training to the staff of the regulatory bodies so that they can enforce applicable accounting standards.
- Imparting training to the corporate accountants in public interest entities, highlighting the practical applications of IFRS in order to build their technical capacities to prepare IFRS-compliant financial statements;
- Facilitating access of smaller audit firms to the materials relating to the recent developments in auditing practices, in particular the practical application of ISA.

Preparation and Filing of Financial Statements

68. **Require full IFRS compliance only by all public interest entities.** Public interest entities should be defined with consideration of issues relevant to Botswana.²⁸ The Companies Act should be modified to require that only public interest entities prepare IFRS-compliant financial statements. Botswana's large nonlisted companies should be required by law to present annual audited IFRS-based financial statements, and these statements should be made available to the public. Considering that the capital market is still at an early stage of development in Botswana, financial transparency in the corporate sector would receive a significant boost if the financial statements of large nonlisted companies were available to investors, banks, and the public in general.

69. **Develop simplified financial reporting requirements for small and medium enterprises (SME).** It is commonly acknowledged that financial reporting requirements for small and medium enterprises should be commensurate with their smaller size, simpler transactions, and narrower range of stakeholders. In this context, the Botswana Institute of Accountants should develop a simplified SME financial reporting framework (i.e., one that would require lesser-level disclosure and eliminate some of the most complex options provided in IFRS, especially those requiring the use of fair values).

70. **Issue practical application guidance on IFRS and ISA.** The Botswana Institute of Accountants should issue implementation guidance on IFRS and ISA illustrating local cases. Implementation guidance on IFRS and ISA should be issued in consultation with the International Financial Reporting Committee (IFRC) of IASB and the IAASB of IFAC. The Botswana Institute of Accountants should ensure all interpretations and other guidance will be promptly available to its members.

Independent Oversight of Audit Profession

71. **Establish an independent audit review board for statutory auditors through support from the similar supranational body.** Auditors have distinctive responsibilities toward the users of financial statements—including shareholders, regulators, and the public in general—in ensuring the relevance and reliability of the companies' financial statements. Failure to fulfill that responsibility can significantly weaken confidence in the companies and discourage investment, thereby damaging private sector competitiveness. To date, Botswana has had no effective auditor oversight. Taking into account the recent international developments on regulating accountancy profession, it would be appropriate for the Institute to support the establishment of an independent "audit review board" with the assistance from the similar regional/supranational institutions. The establishment of an audit review board should not forego the self-regulatory function of the Botswana Institute of Accountants. The Institute under the oversight of the review board should carry out IFAC-recommended disciplinary activities for ensuring that BIA members comply with applicable accounting, auditing, and ethical requirements. In practice, the audit review board would be expected to focus more on the audit

²⁸Public interest entities are defined by the nature of their business, size, and number of employees; or by their corporate status by virtue of their range of stakeholders. Examples may include listed companies, banks and similar financial institutions, insurance companies, and large enterprises. To be considered a public interest entity, the large enterprises may be defined as individual enterprises and groups of enterprise that meet any two of the following three thresholds: (a) total number of employees exceeding [a number to be decided in consultation with the country stakeholders]; (b) total assets on the balance sheet exceeding [amount to be decided in consultation with stakeholders]; and (c) total turnover exceeding [amount to be decided in consultation with stakeholders].

quality of public interest entities; and the Botswana Institute of Accountants would be delegated many low-level regulatory activities. The accountants in public practice should not dominate the operations and management of the audit review board, nor should professional accountants dominate the governing body of the review board. The governing body should select members from the regulatory bodies, academics, and the professional accountants retired from the public practice. Among its primary objectives, the audit review board will promote high-quality corporate accounting and auditing; and ensure integrity, competence, and transparency of the public accountancy profession. Efforts should be made to learn from supranational experiences and to use capacities from the region in operationalizing the audit review board. Moreover, regional expertise can be drawn upon while gradually building Botswana's capacity for undertaking independent oversight of auditors. Possibilities of regional joint efforts should be explored and supported to increase capacity of professional accountancy bodies and regulators. Serious efforts should be taken to plan and establish a central monitoring unit from where expertise could be tapped by the countries, like Botswana, with limited institutional capacity to carry out monitoring and enforcing activities effectively. This approach of building a regional resource pool should be extended for other regulators, such as the Registrar of Companies, Registrar of Insurance, and Bank of Botswana. Among the functions of the audit review board would be the following mandates:

- ***Licensing of statutory auditors.*** The audit review board will award licenses to conduct statutory audits in the public interest entities in Botswana to those professionals who demonstrate adequate technical knowledge and professional competence. The audit review board will set requirements for eligibility of firms to audit public interest entities in order to enhance audit quality and increase auditors' accountability.
- ***Overseeing the implementation of standards.*** The audit review board will oversee the process by which IFRS and ISA are implemented and properly applied. Additionally, the audit review board will be responsible for setting internal quality control requirements for audit firms taking into account corresponding IFAC standards. The audit review board should have experienced staff (full-time or part-time) with capacity to conduct an in-depth review of financial statements. In this regard, regional expertise can be tapped. The policies and procedures for overseeing the implementation of standards will be developed by the review board and approved by its governing board. In order to ensure the audit review board renders unbiased decisions with regard to implementing IFRS and ISA, it should have transparent and clear procedures; rapid and a confidential investigation system; a risk-based approach reflective of available resources; and adequate authority to monitor and enforce applicable accounting, auditing, and financial reporting requirements.
- ***Conducting audit practice review.*** The audit review board will be responsible for conducting practice reviews of public interest entities, ensuring each firm is reviewed at a reasonable regular interval. A review team would be responsible for reviewing the practices of independent auditors and audit firms that audit the financial statements of public interest entities. The practice review will evaluate an audit firm's quality assurance arrangements, its audit approach, and the working papers with

regard to selected audit engagements. The audit review board will develop robust practice review methodologies in collaboration with similar supranational initiatives.

- ***Using disciplinary power.*** Following audit reviews, appropriate sanctions on audit firms should be taken in cases of noncompliance with auditing requirements. The audit review board may inter alia have the powers to issue warnings, impose fines and penalties, and restrict particular auditor(s) from carrying out statutory audit of public interest entities. In addition to resorting to the national legal system, the audit review board should be empowered to impose enhanced administrative sanctions against management of enterprises, auditors, and audit firms for their roles in violating accounting, auditing, and financial reporting requirements. The enhanced administrative sanctions would facilitate enforcement without depending fully on the lengthy legal process.
- ***Reporting to the public.*** The findings and decisions of the audit review board, including sanctions taken against errant auditors, will be made public. This will increase confidence in audited financial information on the part of both domestic and international users.
- ***Defining institutional relations with key stakeholders.*** The audit review board will ensure a cohesive cooperation among all regulators, including the Botswana Institute of Accountants, the investor community, academia, and relevant government agencies. This will help in developing a premise on which a strong corporate financial reporting regime can be built.

Improving Professional Education and Training

72. **Strengthen university curricula in the field of accounting and auditing, as well as professional education and training.** In order for future practitioners, especially would-be auditors, to have a sufficient academic background in the field of accounting and auditing, the University of Botswana's accounting degree curricula should be harmonized with professional requirements at the national level. In that regard, the Government of Botswana should establish guidelines consistent with international best practice. Furthermore, professional accountants should be required to follow training programs to improve and update their knowledge of international standards and practices in the field of accounting and auditing.

73. **Take steps for further strengthening of Botswana Accountancy College.** Improving capacity of the Botswana Accountancy College, in terms of teaching the practical applications of IFRS and ISA, will contribute significantly in improving the country's professional accountancy education and training. Since Botswana Accountancy College is considered a leader in accountancy training, steps should be taken to further build on its resources to train citizens of Botswana. In this context, regional and subregional focus will create an opportunity for sharing expertise, which will improve the resource capacity of Botswana Accountancy College.

74. **Develop professional examination for Botswana and link it with regional professional bodies.** Botswana Institute of Accountants should take steps to develop its own curriculum and examination system for aspiring professional accountants. In this regard, emphasis should be made on practical implications of accounting and auditing and adequate on-the-job training requirements. The Botswana Institute of Accountants should collaborate with other professional bodies in the SADC region, possibly with the help of ECSAFA in developing uniform arrangement or regular professional examination. In addition, further efforts should be made to put in place IFAC-recommended practical training for aspiring professional accountants in Botswana.

75. **Initiate industry-specific training programs.** Due to the unique nature of the insurance business, there is a serious shortage of qualified people in Botswana with adequate knowledge of industry-focused accounting and auditing standards. Training programs should be developed and offered to the accountants and auditors involved in the insurance industry with focus on specific issues relating to the application of IFRS and ISA in the insurance industry.

76. **Properly enforce continuing professional development for the accountants in public practice.** The Botswana Institute of Accountants should arrange delivery of high-quality training programs on practical implementation aspects of accounting and auditing standards and code of ethics for professional accountants. It should develop an effective mechanism for monitoring and enforcement of the requirements on continuing professional development of the practicing members.

Improving Monitoring and Enforcement

77. **Establish securities market regulator to enhance monitoring and enforcement arrangements for publicly traded companies.** The securities market regulator, such as the Securities and Exchange Commission, has a critical role in ensuring that publicly traded companies comply with financial reporting requirements. There is clearly a major interest in ensuring accurate and consistent application of relevant accounting standards in the securities market. The ROSC team strongly supports the establishment of a structured securities market regulator; and IFRS compliance by publicly traded companies should be formally integrated in its monitoring and enforcement activities. The role of the securities market regulator should be adapted in the context of establishment of the proposed audit review board. After reviewing financial statements of publicly traded companies, the securities market regulator would take appropriate enforcement actions against the issuers. Also, it would coordinate with the audit review board for further actions concerning noncompliance by the concerned auditor. The securities market regulator should develop capacity to conduct in-depth review of corporate financial statements in order to determine the degree of compliance with the applicable standards and regulations—not only in appearance but also in substance. For supplementing capacity of the securities market regulator in this regard, there is a need for integration with regional and subregional initiatives.

78. **As a means to safeguard auditor independence, put in place an arrangement for rotation of audit engagement partner.** Arrangement should be made so that an audit firm is required, after conducting audit for one company for a specific number of years, to propose a new partner with responsibility for that particular audit engagement. In cases when an auditor is sole practitioner, the company would need to appoint a new auditor.

79. **Ensure co-ordination among regulatory and professional bodies for improving compliance practices.** The regulatory bodies need co-ordination in order to function cohesively and ensure sustainable, high-quality corporate financial reporting. The audit review board should proactively monitor compliance while other regulatory bodies complement this effort by swiftly alerting the oversight body to noncompliance issues. Other regulators, including government departments, should liaise with the audit review board to verify that audit reports are prepared only by licensed auditors. The relationship of the audit review board as the statutory regulator and the Botswana Institute of Accountants as the professional self-regulatory body needs to be determined, specifically the mutual recognition of functions that are of interest to both.

80. **Introduce a single legislative act covering accounting, auditing, and financial reporting to protect public interest.** In order to improve the statutory framework of corporate accounting and auditing, a single act should be introduced covering all relevant aspects. The provisions of accounting and auditing in the Companies Act, Banking Act, Insurance Industry Act, Accountants Act, and others should be repealed and consolidated in one new law to facilitate easier updates as new challenges emerge. This new law should fundamentally focus on the following:

- ***Application of IFRS and ISA.*** Specify the mandatory application of IFRS and ISA only for the public interest entities in Botswana. The act should incorporate stringent provisions for noncompliance with applicable accounting and auditing requirements. In particular, there should be a clear mandate for obligatory preparation of consolidated financial statements.
- ***Legal backing for establishment of audit review board.*** Provide legal backing for the establishment of an audit review board. In this regard, rationalization of different legislative provisions is necessary for giving the review board adequate power so that it can discharge its regulatory functions effectively.
- ***Public interest functions of professional accountants and auditors.*** Appropriately promote the public interest responsibilities of professional accountants and auditors in Botswana. Attention should be given to redefine the role of professional accountants and auditors, remembering accountants' professional obligations in the context of protecting public interests, changes in governance of Botswana Institute of Accountants in line with recent international developments, enforcement of professional ethics requirements, and enhancing discipline among the members.
- ***Regulatory powers.*** The law should provide for adequate authorities to Registrar of Companies, Bank of Botswana, Registrar of Insurance and other regulatory bodies to appropriately sanction against the violation of applicable accounting and auditing standards and rules.
- ***Auditors' independence.*** Incorporate appropriate provisions outlining auditors' independence. The law should prohibit in particular, the auditors' involvement in preparing financial statements. Additionally, as a means to enhance their

accountability with shareholders, external auditors should be required to attend the annual general meetings for the opportunity to answer shareholders' questions .

81. Introduce awareness programs for improving the degree of compliance with accounting requirements by the public interest entities. The Botswana Institute of Accountants in collaboration with leading audit firms in Botswana should work to design an awareness program on the importance of compliance with accounting and auditing requirements. Shareholders and top management of public interest entities could be briefed on their responsibility regarding compliance with standards and on enforcement policies. These programs should include case studies demonstrating strengths and weaknesses of financial reporting in Botswana, emerging international developments, and the role of transparent financial reporting in attracting both strategic and portfolio foreign investments.

82. Upgrade the licensing procedures for accountants and auditors in public practice. The Botswana Institute of Accountants should streamline its licensing procedure for accountants and practicing auditors in conformity with IFAC guidelines. The curriculum and system of qualification examinations should be improved to conform to the IFAC-proposed International Education Standard for Professional Accountants. In particular, the Botswana Institute of Accountants should develop a sound mechanism for renewing practice license of the auditors in public practice on the basis of their performance evaluation.

83. Conduct ROSC Corporate Governance assessment. The ROSC Accounting and Auditing review exercise has identified a number of shortcomings that have implications for the corporate governance regime in Botswana. The country authorities should take steps for conducting the ROSC Corporate Governance assessment and implementing relevant follow-up actions to strengthen the corporate governance regime.