FINANCIAL STEWARDSHIP AND ACCOUNTABILITY

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DETAILS

- The Role of the Board and Management in prudent financial stewardship & accountability
- Principles of Corporate Governance Reporting and Disclosures

Purposes of a board

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Dr Ronald Sugar: Chairman and CEO of Northrop Grumman 2003 to 2009: on August 1, 2018 he was unanimously elected as independent Chairman of Uber.

The purposes of a Board:

(i) Get the leadership right;

(ii) Get the strategy right;

(iii) Get the risk levels right – ensure the company complies with the laws and regulations that pertain to it; ensure the company and the shareholders are safe.

Safaricom plc (1)

Safaricom has instituted systems to ensure that high standards of corporate governance are maintained at all levels of the Company. We remain committed to the highest standards of corporate governance and business ethics. Good corporate governance practices are essential to the delivery of long term and sustainable stakeholder and shareholder value. Safaricom abides by the Constitution of Kenya and all other laws as a law-abiding corporate citizen. We continuously assess our governance operating model to ensure that robust internal governing bodies and proper systems/ processes are in place to support the Board and Management to drive change, set strategic direction and formulate high-level goals and policies.

Safaricom plc (2)

The Board of Directors of Safaricom is responsible for the governance of the Company. The Directors are committed to fulfilling their fiduciary responsibilities and have instituted various principles necessary to ensure that good governance is practiced with respect to dealings with the Company's shareholders, customers and other relevant stakeholders in line with the spirit of the Code of Corporate Governance for listed Companies.

Safaricom plc (3)

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The primary role of the Board remains provision of effective leadership to the Company towards: Sustainable long-term success through the exercise of objective and informed judgement in determining the strategy of the Company; Having the right team in place to execute the strategy through effective succession planning; Setting up appropriate governance structures for the management of business operations; Monitoring business performance and maintaining an effective framework of controls to mitigate risks facing the business; and Ensuring ethical behaviour and compliance with laws and regulations.

Safaricom plc (4)

The Board is solely responsible for its agenda. It is however, the responsibility of the Chairman and the Company Secretary, working closely with the Chief Executive Officer, to come up with the annual Board work plan and the agenda for Board meetings.

The Board is responsible for recommending independent directors for election by shareholders at the annual general meetings. Nominated directors undergo a formal screening process conducted by the Nominations and Remuneration Committee of the Board before they are formally appointed.

Safaricom plc (5)

The Non-Executive Directors are responsible for ensuring that the business strategies proposed are fully discussed and critically reviewed, as they do not form part of the Executive Management Team. This enables the Directors to promote the success of Safaricom for the benefit of its shareholders, with consideration of, among other matters, the interests of employees, the fostering of business relationships with customers, suppliers and other stakeholders.

Safaricom: The role and responsibilities of the Board

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The Safaricom Board meets at least four times a year and the meetings are structured in a way that allows for open discussions. Comprehensive Board papers are prepared and circulated to all Directors for all substantive agenda items prior to the meeting. This allows time for the Directors to undertake an appropriate review of the Board papers to facilitate full and effective discussions at the meetings. The Senior Leadership Team members may be invited to attend the Board meetings if deemed necessary. Where Directors are unable to attend a meeting, they are advised on the matters to be discussed and given the opportunity to make their views known to the Chairman or the CEO prior to the meeting.

Safaricom: The separation of powers and duties

Separation of powers and duties of the Chairman and the Chief Executive Officer (CEO).

The separation of the functions of the Chairman (a Non-Executive Director) and the CEO (Executive Director) supports and ensures the independence of the Board and management. The balance of power, increased accountability, clear definition of responsibilities and improved decision making are attained through a clear distinction between the non-executive and executive roles.

FRUGALITY

Frugality is the quality of being frugal, sparing, thrifty, prudent or economical in the consumption of consumable resources such as food, time or money, and avoiding waste, lavishness or extravagance.

In behavioral science, frugality has been defined as the tendency to acquire goods and services in a restrained manner, and resourceful use of already owned economic goods and services, to achieve a longer term goal.

CORPORATE WORLD

Frugality has been adopted as a strategic imperative by large enterprises as a means of cost reduction through engenderment of a philosophy of careful spending amongst the workforce. Cost reduction is often perceived negatively, be it within a corporate organisation or in society, so inviting each employee to embrace frugality transfers the burden of cost reduction from management to the employee. In doing so, corporations introduce a moral obligation to cost cutting, proposing the notion that careful management of costs is in the company, shareholder and employee's best interests.

UN SDG 12: Safaricom

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Responsible consumption and production: We strive to manage our potential negative environmental impacts and we encourage our stakeholders to do the same. Our focus is on embracing circularity, eliminating plastic, digitizing practices and processes to increase efficiency and reduce waste and on supporting global advocacy initiatives.

UN SDG 16: Safaricom

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Peace, justice and strong institutions: We are committed to running a responsible and ethical business and we practice and uphold strong governance and ethical standards. We aim to report our progress and performance honestly and transparently and we engage openly with key stakeholder groups

Frugality strategies

Strategies: Common strategies of frugality, include reduction of waste, curbing costly habits, suppressing instant gratification by means of fiscal self-restraint, seeking efficiency, avoiding traps, defying expensive social norms, detecting and avoiding manipulative advertising, embracing cost-free options, using barter, and staying well-informed a, bout local circumstances and both market and product/ service realities. Frugality may contribute to health by leading people to avoid products that are both expensive and unhealthy when used to excess. Frugal living is mainly practiced by those who aim to cut expenses, have more money, and get the most they possibly can from their money.

Code of ethics & conduct

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The Company pursues ethical decision making and leadership to promote corporate social responsibility, fair business practices, sustainability and the triple bottom line that focuses on society, the environment and profitability. The Board has implemented a Code of Ethics and Conduct which binds Directors and Employees and is subscribed to by all members of the Company. Initiatives to ensure its application include training, monitoring, mechanisms for whistle blowing, taking disciplinary action, etc.

Annual financial statement

Kenya Companies Act 2015. Section 620. (1) In this Part— "annual financial statement", in relation to a company, means the company's individual financial statement for a financial year, and includes any group financial statement prepared by the company for that year.

(2) In the case of an unquoted company, its annual financial statement and reports for a financial year consist of— (a) its annual financial statement; (b) the **directors' report;** and (c) the auditor's report on the financial statement and directors' report unless the company is exempt from audit.

Quoted company

(3) In the case of a quoted company, its annual financial statement and reports for a financial year consist of— (a) its annual financial statement; (b) the directors' remuneration report; (c) the directors' report; and (d) the auditor's report on— (i) the financial statement; (ii) the auditable part of the directors' remuneration report; and (iii) the directors' report.

Directors' report (1)

S653. (1) The directors of a company shall prepare a directors' report for each financial year of the company. (3) If appropriate, a group directors' report may give greater emphasis to the matters that are significant to the undertakings to which the group financial statement relates, taken as a whole. (4) If the directors of a company fail to comply with subsection (1) or (2), each director of the company who is in default commits an offence and on conviction is liable to a fine not exceeding five hundred thousand shillings.

Directors' report (2)

654. (1) The directors shall include in their report for a financial year: (a) the names of the persons who, at any time during the financial year, were directors of the company; and (b) the principal activities of the company during the course of the year.

655. (1) The directors shall include in their report a business review. (2) The purpose of the business review is to inform members of the company and assist them to assess how the directors have performed their duty under section 144.

144. (1) A director of a company shall exercise independent judgment. (2) The duty under subsection (1) is not infringed by the director acting: (a) in accordance with an agreement duly entered into by the company that restricts the future exercise of discretion by its directors; or (b) in a way authorised by the constitution of the company.

Directors' report (3)

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655. (3) The business review must :(a) contain: (i) a fair review of the company's business; and (ii) a description of the principal risks and uncertainties facing the company; and (b) is a balanced and comprehensive analysis of: (i) the development and performance of the business of the company during the company's financial year; and (ii) the position of the company's at the end of that year, consistent with size and complexity of the business.

Directors' report (4)

655. (4) In the case of a quoted company, the directors shall specify in the business review (to the extent necessary for an understanding of the development, performance or position of the company)— (a) the main trends and factors likely to affect the future development, performance and position of the business of the company; (b) information about— (i) environmental matters (including the impact of the business of the company on the environment);

Directors' report (5)

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655. (4) (b) information about: (ii) the employees of the company; and (iii) social and community issues, including information on any policies of the company in relation to those matters and the effectiveness of those policies; and (c) information about persons with whom the company has contractual or other arrangements that are essential to the business of the company.

Directors' report (6)

655. (5) If the business review does not contain information of each kind mentioned in subsection (4)(b)(i), (ii) and (iii) and (c), the directors shall specify in the review which of those kinds of information it does not contain.

Audit committee (1)

S769. (1) The directors of a quoted company shall ensure that the company has an audit committee appointed by the shareholders of a size and capability appropriate for the business conducted by the company.

S769. (3) If the directors of a quoted company fail to comply with subsection (1), each of the directors in default commits an offence and on conviction is liable to a fine not exceeding one million shillings.

Audit committee (2)

S770. (1) The audit committee of a quoted company shall: (a) set out the corporate governance principles that are appropriate for the nature and scope of the company's business; (b) establish policies and strategies for achieving them; and (c) annually assess the extent to which the company has observed those policies and strategies.

Audit committee (3)

S770 (2) The audit committee of a quoted company is responsible for: (a) organising the company to promote the effective and prudent management of the company and the directors oversight of that management; and (b) establishing standards of business conduct and ethical behaviour for directors, managers and other personnel, including policies on private transactions, self-dealing, and other transactions or practices of a non-arm's length nature.

Audit committee (4)

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S770 (3) The audit committee of a quoted company is also responsible for: (a) overseeing the operations of the company and providing direction to it on a day-to-day basis, subject to the objectives and policies set out by the audit committee and any other written law; (b) providing the directors with recommendations, for their review and approval, on the objectives, strategy, business plans and major policies that are to govern the operation of the company;

Audit committee (5)

S770 (3) The audit committee of a quoted company is also responsible for:

(c) providing the directors with comprehensive, relevant and timely information that will enable the directors to review the company's business objectives, business strategy and policies, and to hold senior management accountable for the company's performance.

Directors' remuneration report

The Companies Act, 2015 requires the Company to table a Directors' Remuneration Report to its shareholders as part of its audited financial statements. The Board Nominations and Remuneration Committee (BNRC) has prepared this report in accordance with the requirements of the Capital Markets Code for Issuers of Securities and the Companies Act 2015.

Going concern

The Board confirms that the financial statements are prepared on a going concern basis and has adequate resources to continue in business for the foreseeable future. In making this assessment, the Directors consider a wide range of information relating to present and anticipated future conditions, including future projections of profitability, cash flows, capital and other resources.

Statement of directors' responsibilities (1)

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The Kenyan Companies Act, 2015 requires the Directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Group and Company as at the end of the financial year and of their profit or loss for that year. It also requires the Directors to ensure that the Company keeps proper accounting records that: (a) show and explain the transactions of the Group and Company; (b) disclose, with reasonable accuracy, the financial position of the Group and Company; and (c) enable the Directors to ensure that every financial statement required to be prepared complies with the requirements of the Companies Act, 2015.

Statement of directors' responsibilities (2)

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The Directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for: (i) designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error; (ii) selecting suitable accounting policies and then applying them consistently; and (iii) making judgements and accounting estimates that are reasonable in the circumstances.

Statement of directors' responsibilities (3)

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Having made an assessment of the Group's and Company's ability to continue as a going concern, the Directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Group's and Company's ability to continue as a going concern. The Directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibility. Approved by the Board of Directors on 28 April 2020 and signed on its behalf by: Nicholas Nganga; Michael Joseph

Disqualification

Unfitness for director: Second Schedule: **1.** Any misfeasance (transgression: especially the wrongful exercise of lawful authority) or breach of any fiduciary (highest standard of care) or other duty by a director or **secretary** in relation to the company. **2.** Any misapplication or retention by a director or **secretary** of, or any conduct by a director or secretary giving rise to an obligation to account for, money or other property of the company.

How Mumias bosses brought firm to its knees (1)

Ramenya Gibendi: https://nation.africa/kenya/news/how-mumias-bosses-brought-firm-to-its-knees-1069246

Managing Director Evans Kidero and his successor at Mumias Sugar, Mr Peter Kebati, ignored repeated calls by auditors and the company's board of directors to seal gaping corruption loopholes at the miller, says a report. The forensic report by audit and consulting firm KPMG blames management teams under the two former bosses of blatantly disregarding information from auditors that there existed massive abuses of procedure which needed fixing.

How Mumias bosses brought firm to its knees (2)

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"We noted that Mumias Sugar Company's internal auditors, external auditors and the board of directors consistently notified management of non-adherence to policy and procedure and gave recommendations, which should have been acted upon," reads the report. Non-compliance with policies and suggested changes, said the KPMG report, exposed Mumias to a potential loss of substantial revenue. "However, management never undertook to implement the recommendations suggested or enforce compliance with the policies suggested (by internal, external auditors and board of directors)," said KPMG.

How Mumias bosses brought firm to its knees (3)

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It gives shocking accounts of how successive management teams connived at every turn in all departments, creating and exploiting loopholes that exposed the company to massive losses. Almost every process at the company — from procurement, sugar importation and commercial divisions — was deliberately abused for the benefit of individuals, says the report. The audit report provides a preview of the chief architects and faces behind the current sorry state of previously western Kenya's economic giant. Current Nairobi Governor Kidero is listed among individuals with the greatest responsibility for the losses at the country's largest miller during his decade-long reign as managing director.

The Board finally acts

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Mumias Sugar Company has sacked its chief executive officer Peter Kebati and commercial director Paul Murgor after finding them culpable for illegal sugar imports that cost the listed miller Sh1.1 billion. The sackings follow the presentation to the board of an audit by KPMG, which was contracted to investigate claims that senior executives of the company were discreetly importing sugar and repacking at as a product of Mumias Sugar for sale.

The Board finally acts

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"The board after careful consideration of the nature and extent of the involvement of members of the management and the impact it has had on the company, both from a financial and a reputation point of view, has this morning decided to terminate the services of the employees involved," said board chairman Dan Ameyo in a statement on Monday. The report will be released to the public at the company's headquarters in Mumias on Tuesday. "Evidence indicates that management made misrepresentations on a number of key facts to the Board. Management also acted contrary to the Board's directive and without its approval and did not follow due process", said KPMG.

Board performance

Board Performance and Remuneration Structure: 1. The Board should disclose: (a) In the financial statements, the remuneration of directors, individually and collectively. (b) The salaries and remuneration of the Chief Executive Officer and the senior management.

(c) A summary of the Board evaluation results.

Financial stewardship (1)

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Directors should look at how the resources in the company are working for them and consider what metrics are appropriate to evaluate the overall effectiveness of the business.

First, consider what the critical assets are to your product and service.

You should know whether those assets – whether people, machines or money – are being used to their maximum capacity.

Financial stewardship (2)

This analysis requires one to understand how the asset is used and what it costs to produce the product or service. Some metrics may be utilization, a cost of goods sold ratio, and net and gross profit margin.

The metrics chosen must be tied to the drivers of the business' financial stability and success and should include leading indicators so you know when the company's financial position may be at risk.

Some suggestions

Pay particular attention to:
(a) sales/ revenue/turnover;
(b) gross profit;
(c) net profit;
(d) cash flow – especially from operations;
(e) financial position – especially borrowing, inventory, receivables & payables

Risk

Ask questions about areas of risk – PWC found that Board involvement in risk oversight was considered extremely valuable by 63.3% of directors surveyed: 56.6% of respondents said more time should be spent on risk management: PWC - "*During the last 12 months, has your board discussed an action plan that would outline the steps your company would take should it face a major crisis?*" - 66.5% said "Yes"

LISTEN

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Be attentive to questions asked by other members of the board; very often questions by other members of the board will get you thinking in a new and very constructive way.

Avoid "catching the finance director flat-footed" – or any other member of the board – if you find a mistake somewhere, inform the finance director or other director before the meeting – make a real effort to promote trust at all times.

Corruption in Uganda

UGANDA: "…..The Uganda Manufacturers Association has not addressed the issue of Corporate Governance and Anti- corruption Measures outside the businesses in our Association. However under Private Sector Foundation Uganda (PSFU) of which we are members, we associate ourselves with the Institute of Corporate Governance of Uganda whose main agenda is advocacy for Corporate Governance and Anti-corruption efforts. I am also not aware of any private/public joint committee on corporate governance anti-corruption". 40% of the companies find it problematic obtaining access to land because of inconsistent and unpredictable regulations. 45.5% of companies expect to give gifts in order to secure a government contract. "….Foreign-owned and exporting companies are the biggest targets of government officials soliciting bribes, typically related to tax, customs or obtaining public services. These companies are known to pay almost 4% of their revenue in informal payments to 'get things done'. …Crime, transport and tax rates are the main constraints to doing business in the country. These are followed closely by corruption, electricity, tax administration and access to finance."

Mumias' problems

Beginning in 2012, the company began experiencing lowered sugar output and deceased profits, initially blamed on "inefficiency". A forensic audit by the audit firm KPMG, found procedural and financial irregularities which top management had hid from the company's Board of Directors, leading to a loss of over KSh:1 billion (approximately US$12 million), by the company. These developments led to the firing of 52 top managers, including the CEO, CFO, Commercial Director and Company Secretary. The company has asked the government for KSh2.3 billion (approximately US$26 million) in bail-out funds, of which KSh500 million (approximately US$5.6 million) had been advanced, as of the first week of February 2015. Legal proceedings against the major culprits in the scam have begun. On 24 September 2019, Kenya Commercial Bank (KCB), which is owed KSh545 million (approximately US$5.45 million) by Mumias, placed the sugar miller under receivership and appointed the consultancy firm of PVR Rao as the administrator. Government-owned sugar manufacturers: 1. Mumias Sugar Company; 2 Nzoia Sugar Factory; 3 South Nyanza Sugar Company; 4 Muhoroni Sugar Company; 5. Chemelil Sugar Factory