How to Provide Effective Oversight & Value to the Annual Report via BAC

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Why Board of Directors?

CEOs worry about loss of control and debate whether it is worth the cost and effort. However, with a great board of directors, you can have people who are totally focused on what you need to be successful. They can guide you to avoid the risks you don't really want to take. A great board of directors can help expand your vision in a way that helps you achieve your long-term goals and strategic objectives.

Lodestone Global recently published data that explores the financial benefit of implementing a board. 87% of survey participants responded their companies saw increased revenues and 81% reported increased EBITDA after implementing a board.

Strategic Value of Quality Boards

•**Boards extend networks.** Boards extend connections and give the company access to places and people they can't reach. They can make the introductions needed to amplify business opportunities

•**Boards promote accountability.** Key managers are held accountable to deliver on their promises to the board. Everybody has to report to somebody, and the board helps reinforce accountability and urgency

•**Boards lend credibility.** A board propels company growth by lending credibility to customers, employees and other stakeholders

•**Boards provide "air cover."** Boards can provide cover for difficult strategic decisions. CEOs or key managers can justify tough choices by saying "the board recommended"

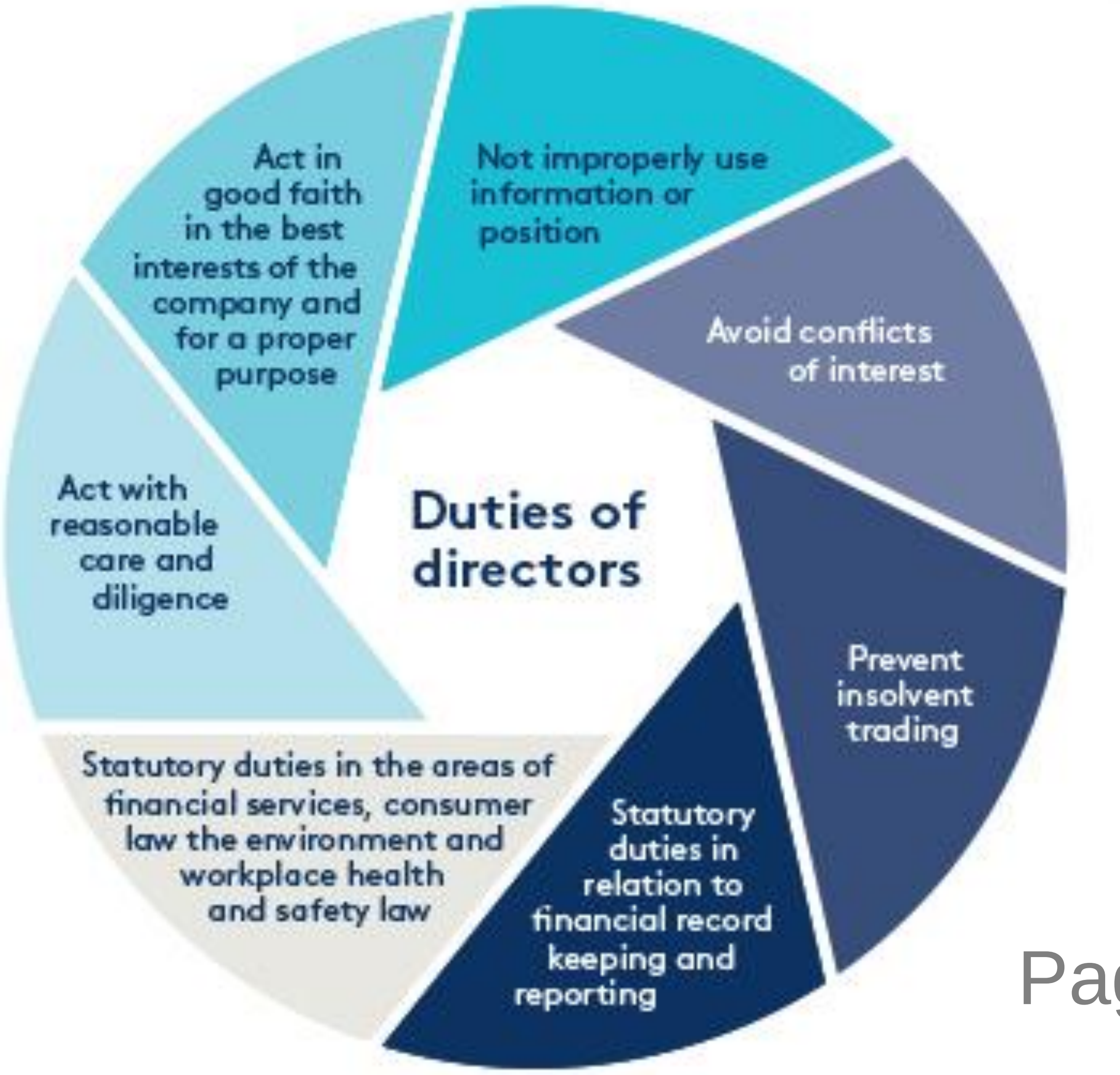
Summary of duties of directors

Fiduciary duty: owed by a person in a position of trust.

- To act in good faith in the best interests of the beneficiaries
- To act in accordance with the trust deed
- Not to make a profit from their position
- Not to place themselves in a position where their own interests conflicts with their fiduciary duties
- Not to act to their own advantage or the benefit or a third person without the beneficiary’s consent
- To properly invest trust property.

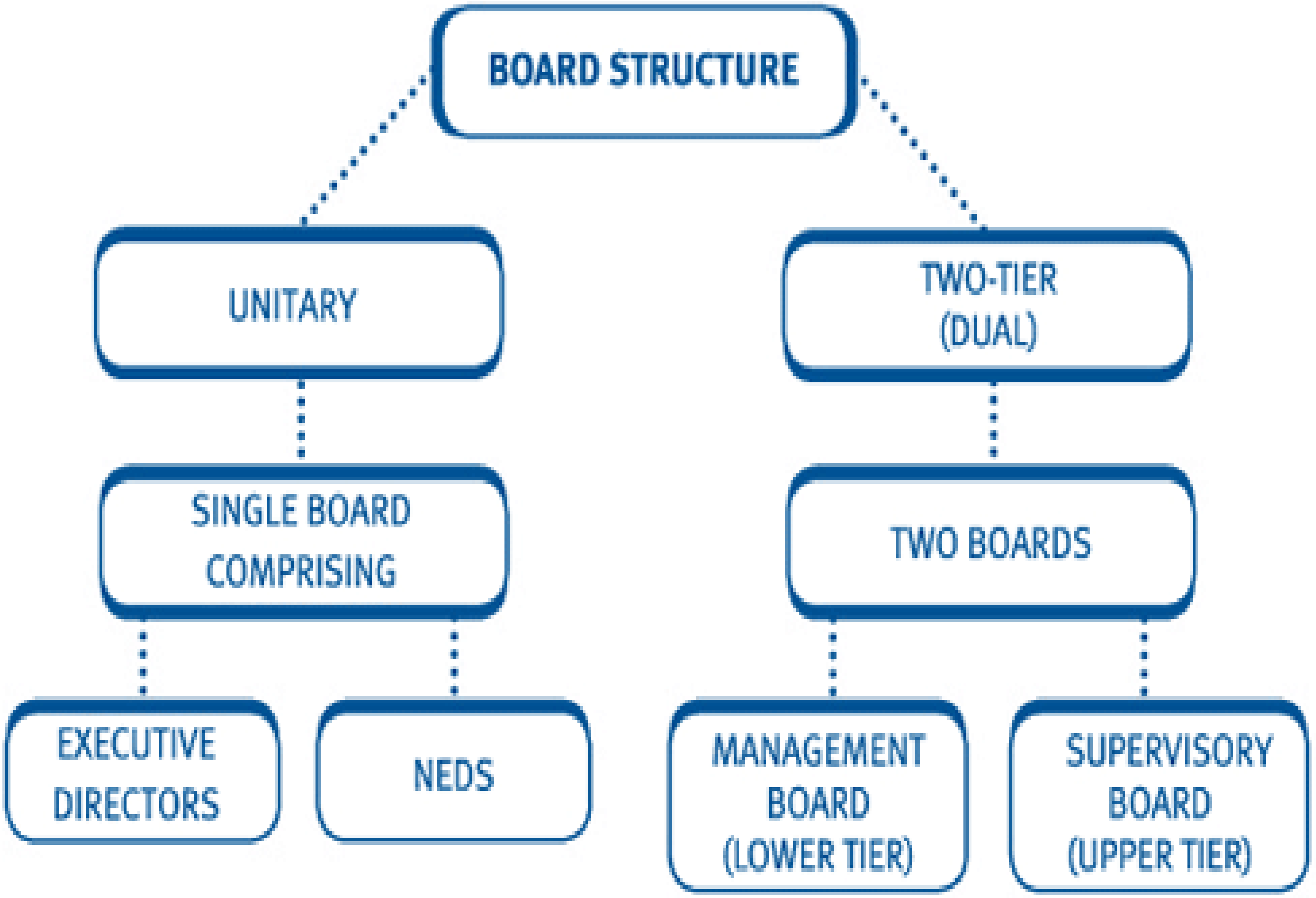
General duties of directors – Companies Act:

- Duty to act within the powers and for proper purposes
- Duty to promote the success of the company
- Duty to exercise independent judgement
- Duty to exercise reasonable skill, care and due diligence
- Duty to avoid conflicts of interest
- Duty not to accept benefits in transactions
- Duty to declare interests in transaction



Board of Directors’ Structure

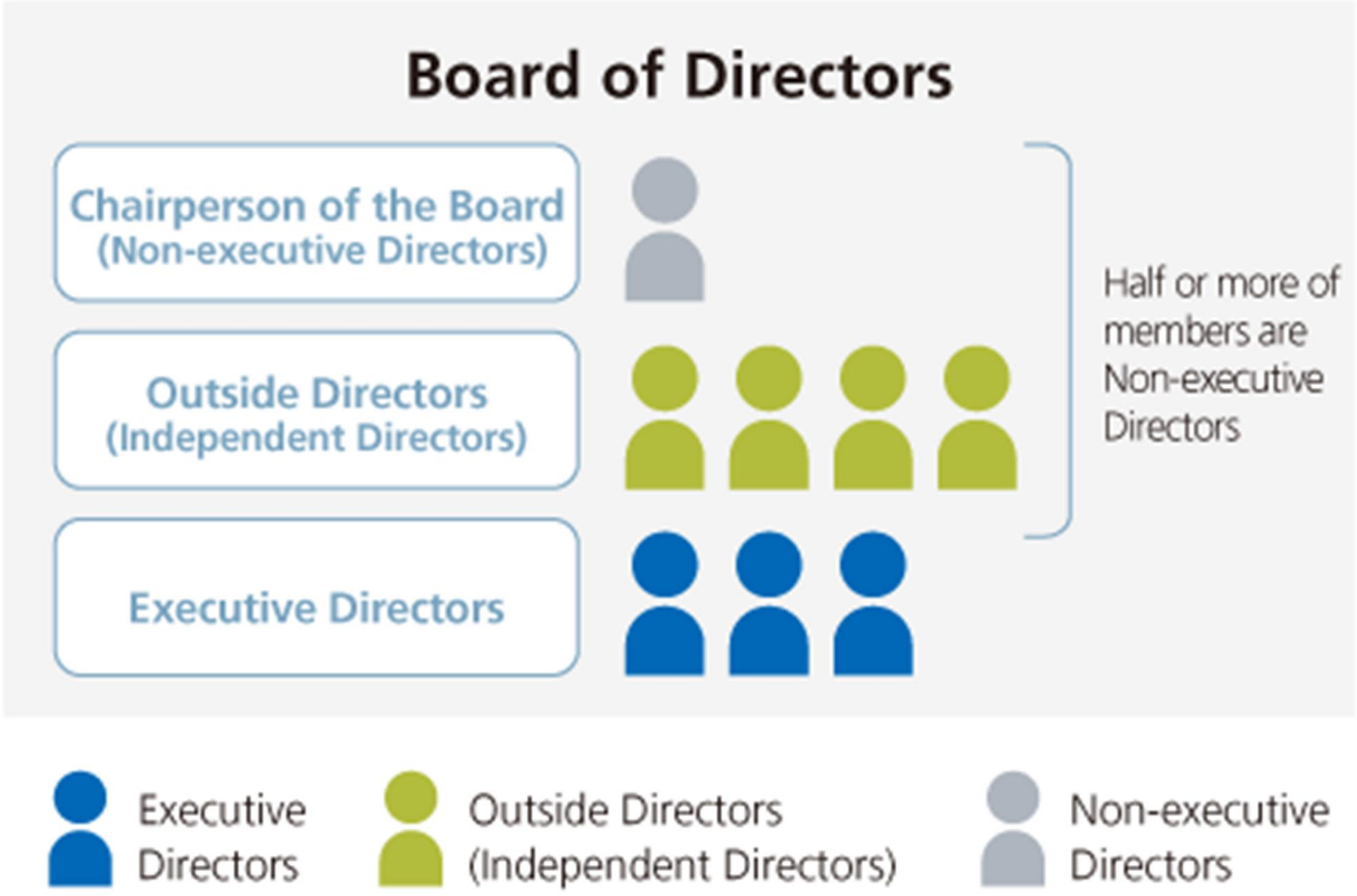
G20/OECD Principles of Corporate Governance: “Corporate Governance Framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board’s accountability to the company and the shareholders”.



Composition of the Board

The makeup of the boards is a key issue in governance. The focus is on:

- More representative boards: there are quotas for women on boards and growing requirements for more social and ethnic diversity on boards and within the pipelines for board succession.
- Independence of board members to ensure that there is challenge to a dominant chairman or CEO – 2019 AGM Planning Report by Equiniti.
- UK Code provision 11 requires at least half of the board to be NEDs, considered independent.
- Composition: Chair (or deputy chair), CEO, Executive director (eg CFO), NEDs, Senior Independent Director (who may be deputy chair). CEO should not be the chair of the same company – UK Code provision 9.



Requirement for a 'balanced board'

Consideration is given to:

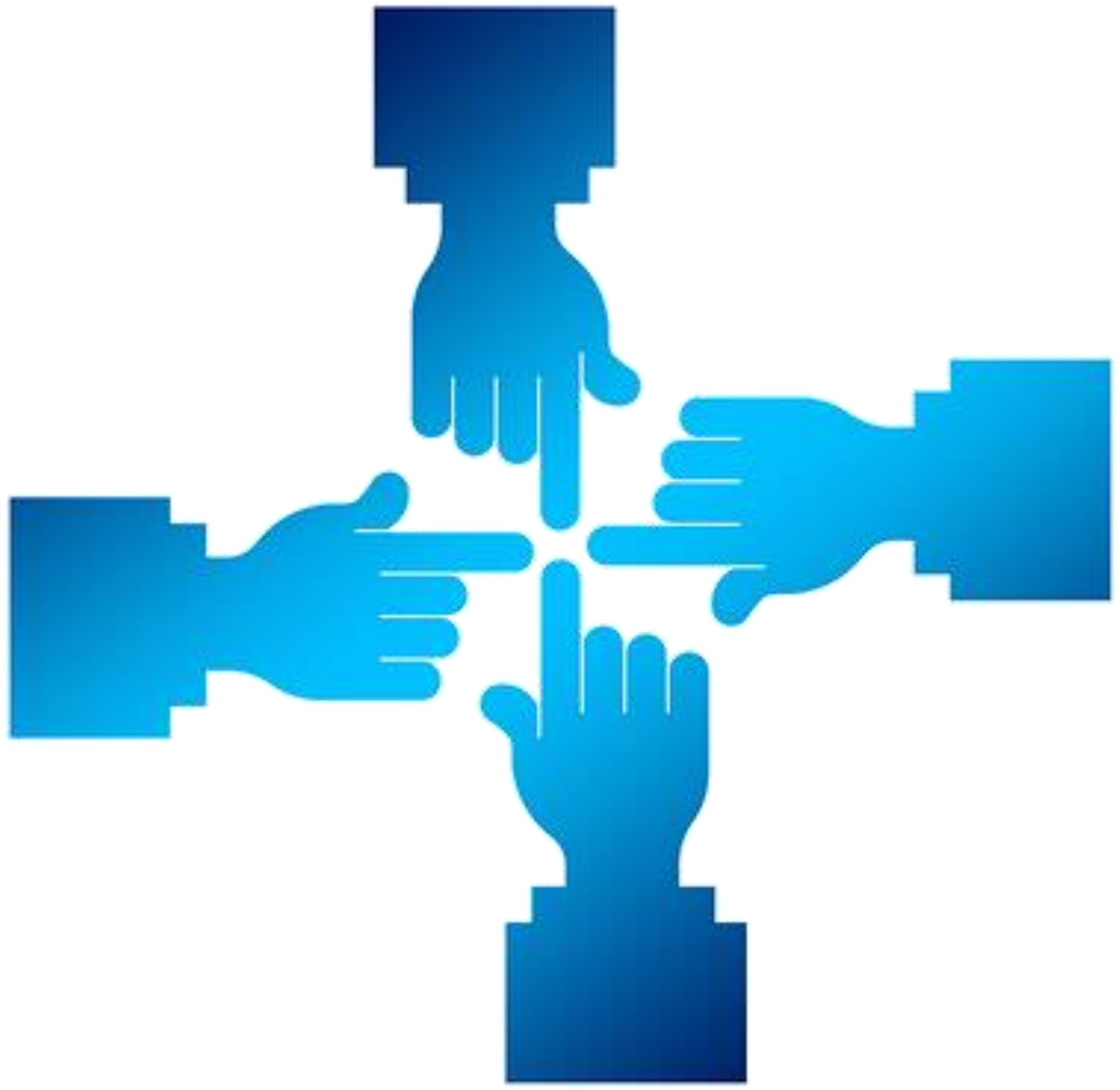
- Separation of roles of chair an CEO
- An appropriate balance of executive, Non-executive and independent directors
- Appropriate skills, experience knowledge
- Gender balance
- Diversity.

The Board Effectiveness

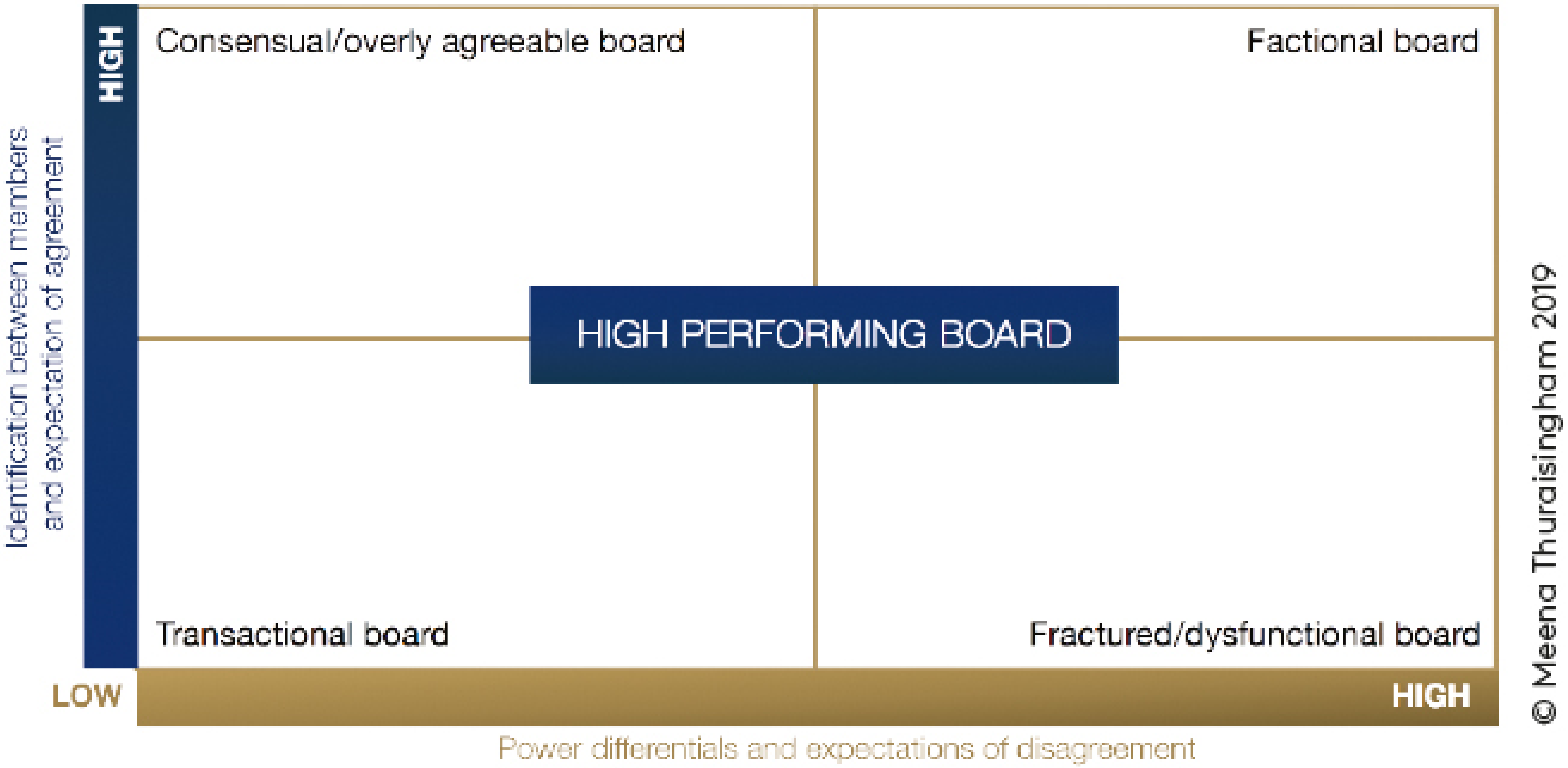
- ❖Regular meetings
- ❖Decision making processes – dynamics
- ❖Supply of information – packs
- ❖Board portals and electronic board papers
- ❖Corporate culture
- ❖Independent professional advice
- ❖Performance evaluation- what, by who?
- ❖Induction and professional development

The Board Effectiveness…..

Directors



TYPOLOGY OF BOARD CULTURES AND RISKS TO BOARDS' COLLECTIVE IMPACT



Source: Identity, Power and Influence in the Boardroom, Thuraisingham (Routledge, 2019)*

Board Behavioural Dynamics

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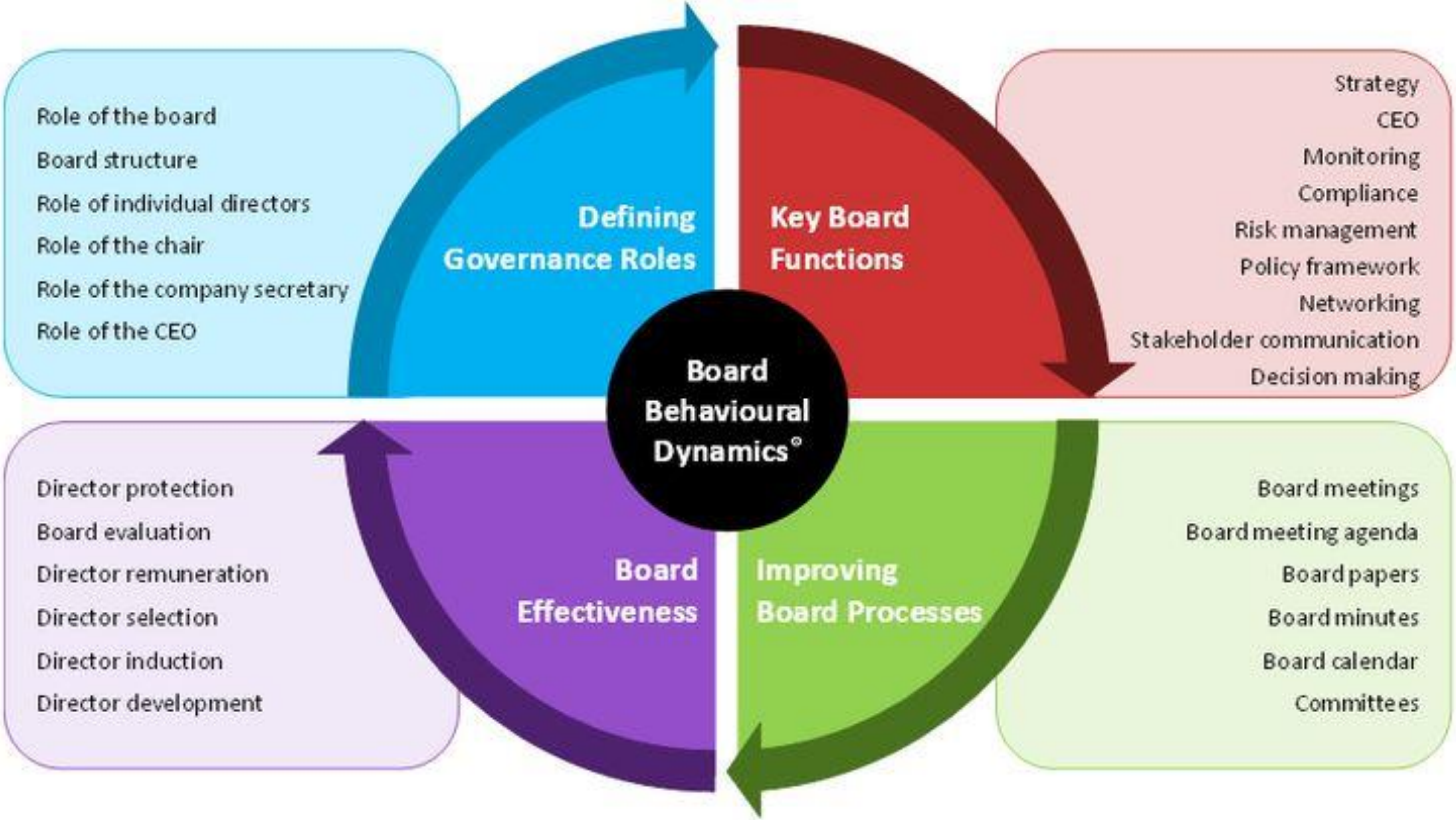


Does board dynamics matter?

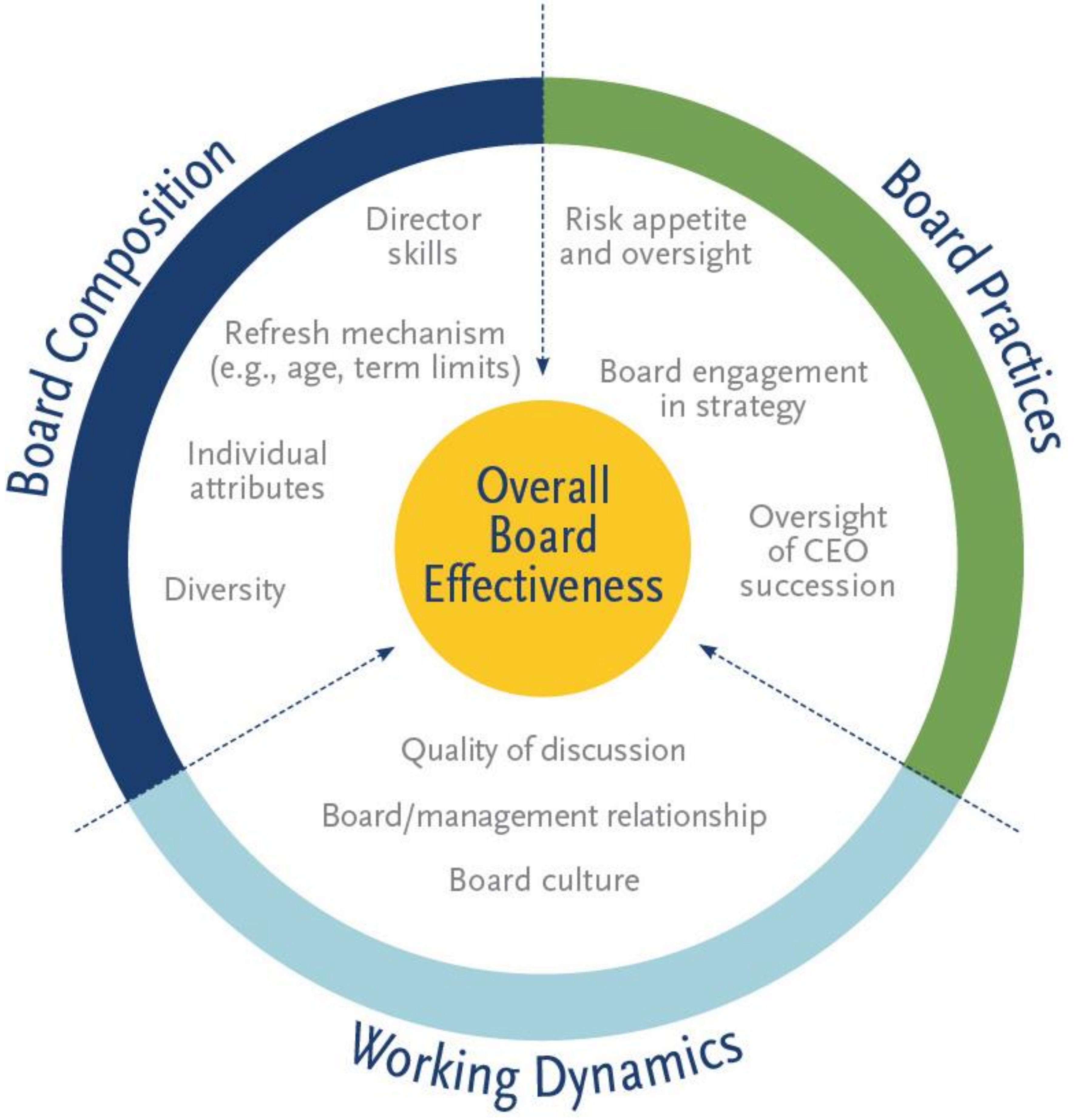
What impact does board dynamics have on financial outcomes? Research by Solange Charas (2014) provides strong evidence supporting three findings:

- "Cultural intelligence" of individual directors, or their predisposition to working well in teams, is critical in generating high-quality team dynamics;
- The quality of board-level team dynamics is highly correlated with firm profitability; and
- Boards that are able to function effectively as a team have an 800% greater impact on firm profitability than any one well-qualified board director — in other words, and consistent with Aristotle's observation, the whole is greater than the sum of its parts.

Board Education and Evaluation

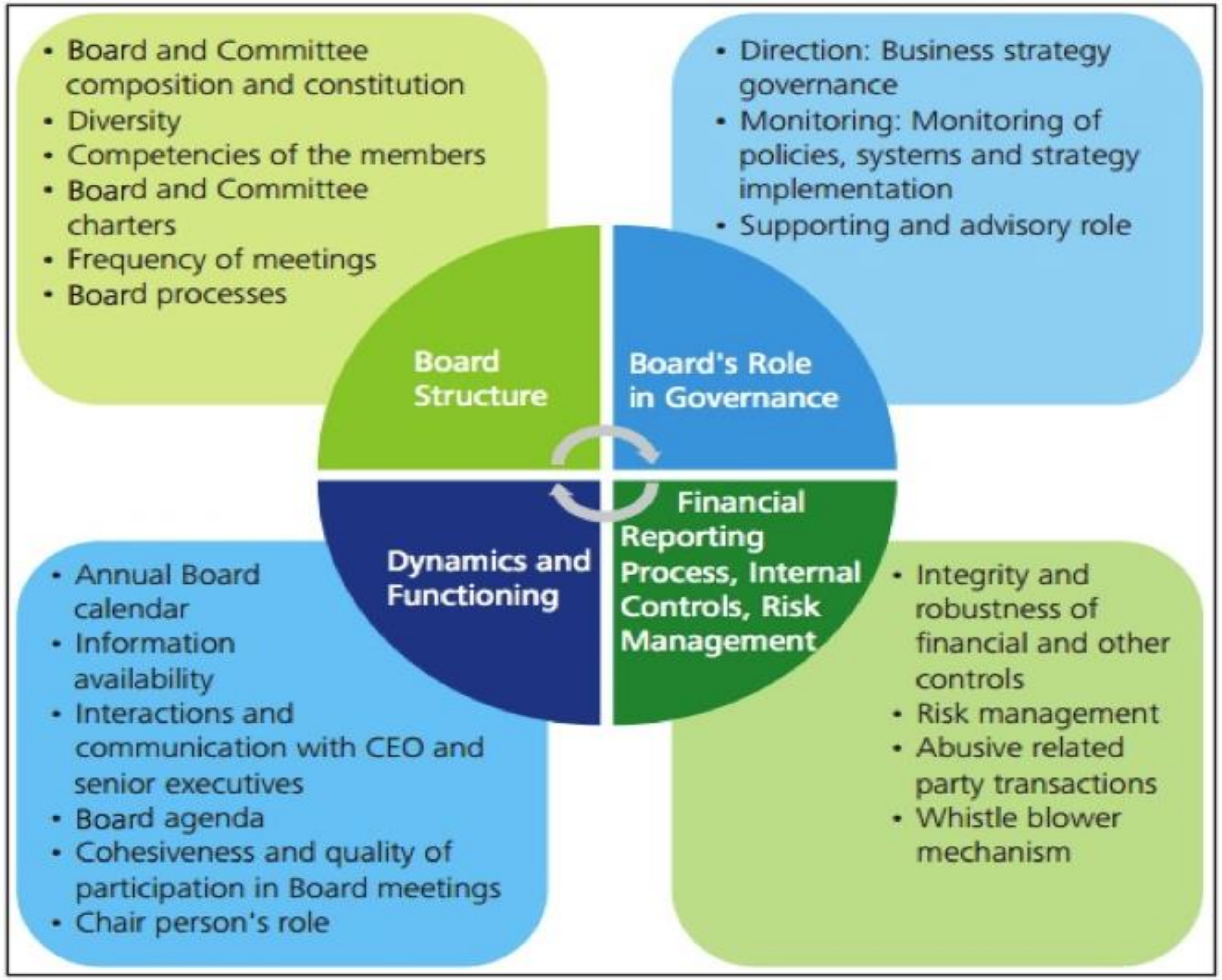
Corporate governance reforms and best practices issued by a number of organisations recommend continuous education and evaluation of the board of directors.

Evaluation of the company's board should be performed formally and regularly (at least annually) through either self-evaluation, independent committee evaluation (audit, compensation, nomination), or outside consulting evaluation.



Board Evaluation Parameters

Listed companies in the UK, in the FTSE 100, are also required to hold annual evaluations, using external evaluator, of the whole board, its committees, the chair and individual directors. For FTSE 350 companies, this should be at least every three years.



Board and its committees

SNMBU

Board of Directors

(Committee Report-Outs and Annual Board Review)

Audit Committee

Financial reporting, internal controls, compliance, cyber-security, tax and other financial risks

Compensation Committee

Compensation program and policies

Finance Committee

Capital structure, insurance and treasury activities

Governance Committee

Director selection, Board succession and other governance-related matters

SCR Committee

Policies and strategies pertaining to sustainability and corporate responsibility; political activities

Management

(Updates to Board or relevant Committeee on risk exposures and mitigation efforts)

Board of Directors role in controls

Principle C of the UK Corporate Governance Code 2018 requires the board to establish a framework of prudent and effective controls, which enables risk to be assessed and managed. This involves:

- Approving delegated levels of authority, including CEO’s authority limits;
- Establishing board committees and approving their terms of reference;
- Adopting a schedule of matters reserved for the board;
- Establishing internal controls and risk management procedures; and
- Setting the company’s risk appetite.

Annual Report & Accounts

- ❖Audited financial statements
- ❖Narrative Report
- ❖Corporate Governance Report
- ❖Strategic Report
- ❖CSR Report – SDGs
- ❖Triple bottom line reporting – Sustainability. GRI Standards
- ❖Integrated Reporting
- ❖Environmental Profit and Loss Accounts (EP&L).
- ❖Long-term viability statement
- ❖Directors' remuneration report
- ❖External Assurance

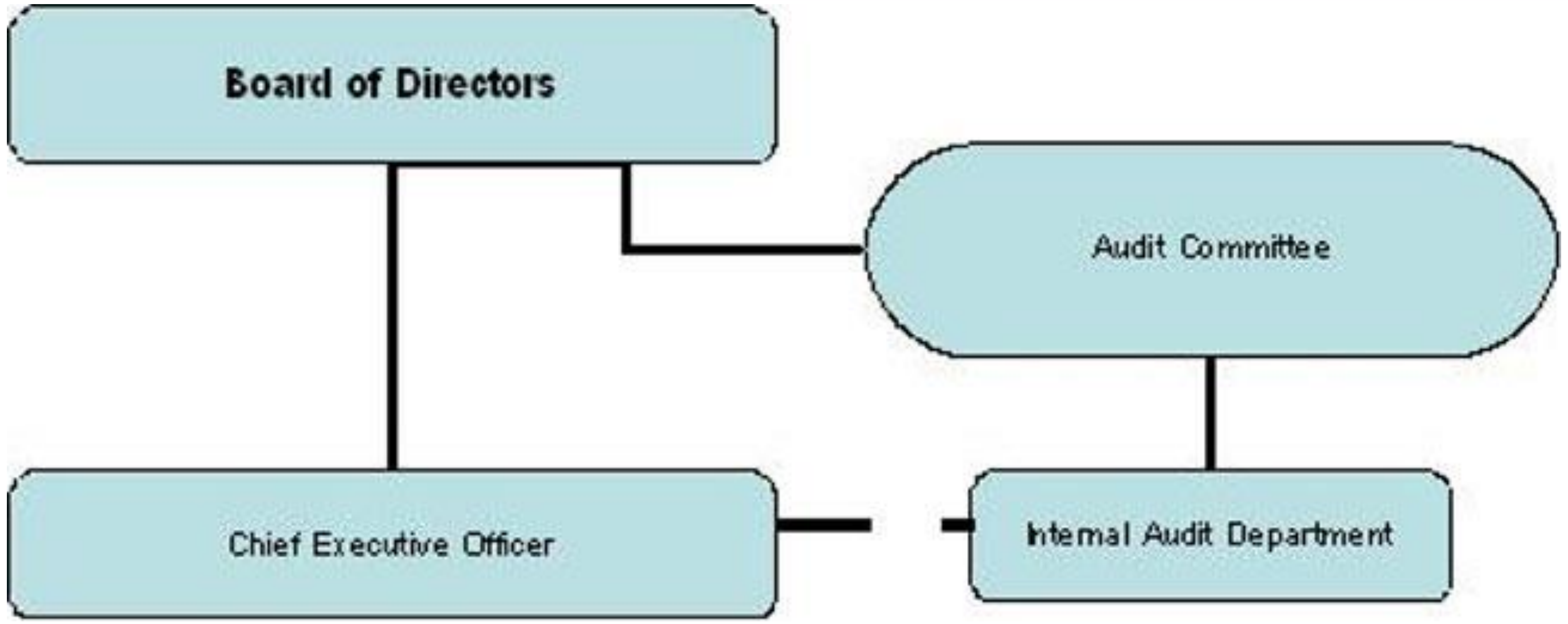
Board Audit Committee Requirements

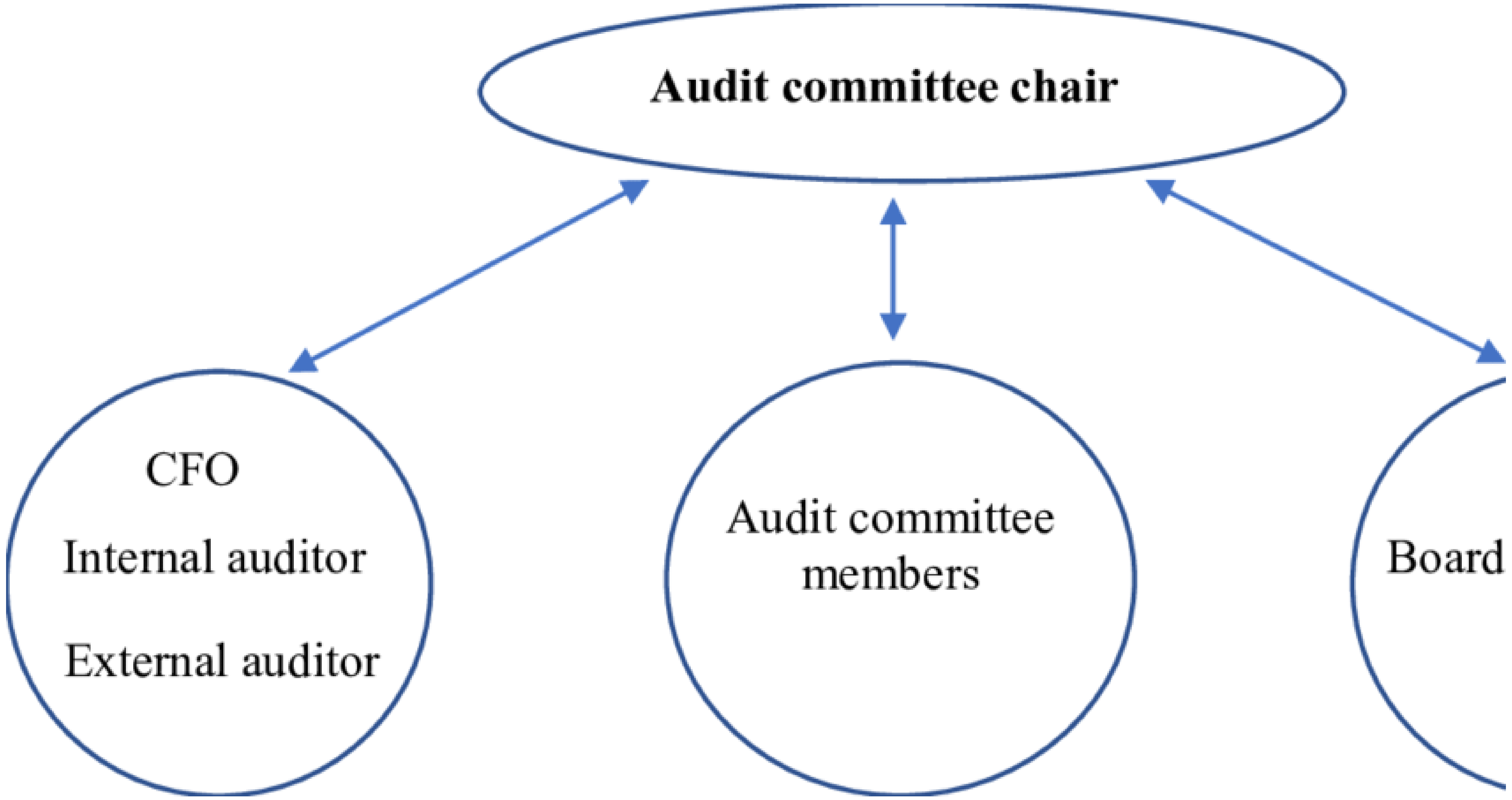
BAC is key in ensuring that an organisation has robust and effective processes relating to financial reporting, internal controls, risk management and ethics. BAC is the main oversight body for internal and external auditors.

UK's Disclosure Guidance and Transparency Rules (DTR 7.1) and U Corporate Governance Code 2018 (Principle M) require listed companies to have BAC, and describe its work in the company's annual report.

FRC Guidance on Audit Committee requires BAC roles and responsibilities to be written and tailored to the particular circumstances of the company, and its effectiveness reviewed annually.

BAC Set-up considerations





Composition of the BAC

DTR 7.1 requires BAC for listed companies to be comprised of:

- Majority of independent directors, including the chair;
- At least one member who has competencies in accounting or auditing or both;
- Members who as a whole have competencies relevant to the sector in which the listed company is operating in.

The UK Corporate Governance Code 2018 has stricter requirements for listed companies:

- Minimum of three independent directors, two for companies below FTSE 350;
- One member should have a recent and relevant financial experience;
- Members who as a whole have competencies relevant to the sector in which the listed company is operating in.

The chair of the board should not be a member of BAC.

FRC Guidance on Audit Committees (2016) requires appointments to BAC members to be made board on recommendation of the nomination committee and BAC chair.

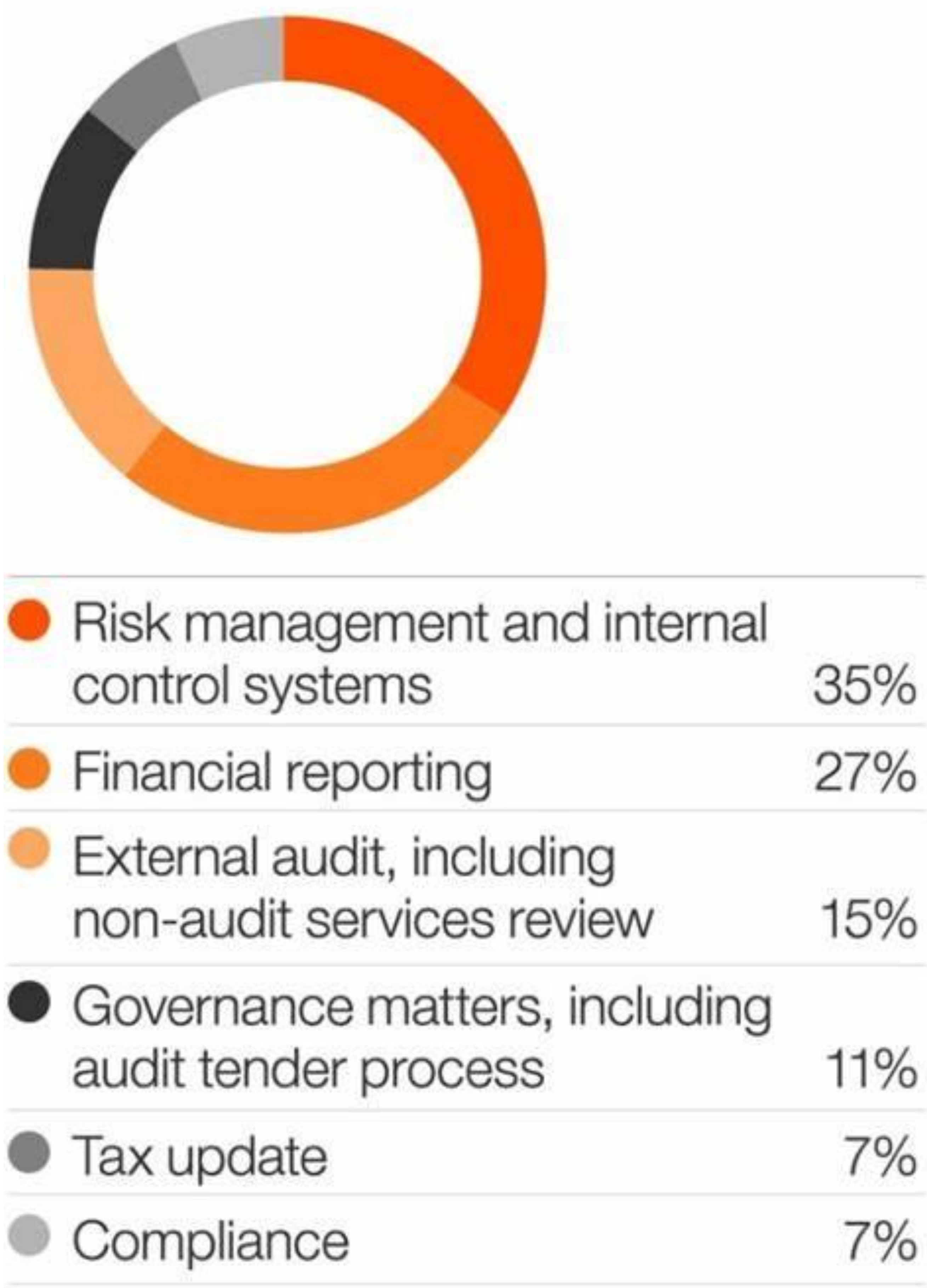
Role and Responsibility of BAC

FRC Guidance on Audit Committees (2016) provides the following:

- Annual reports and other periodic reports: accounting policies, methods for unusual transactions, clarity and completeness of disclosures in FS, if content of annual report and accounts is fair, balanced and understandable.
- Internal control and risk management systems: review established systems to identify, assess, manage and monitor financial risks.
- Internal audit: review need to establish it, role and mandate, charter, annual audit plan and budget, internal audit effectiveness, appointment of the head of internal audit.
- External audit: recruitment, fee, scope, reappointment/removal, assess capacity, non-audit services, representation letters, review findings, effectiveness of entire audit, investigates if auditor resigns.

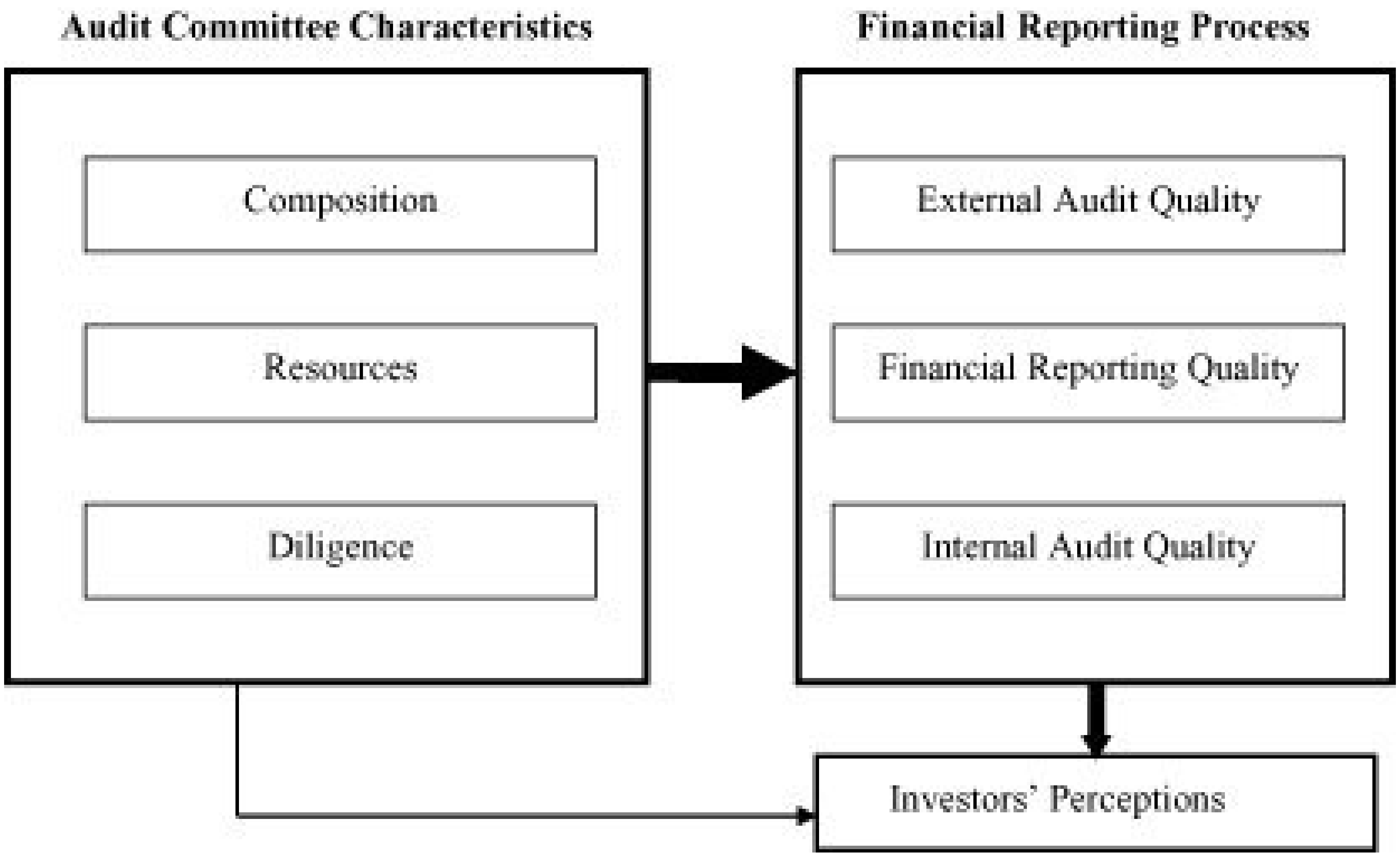
BAC should me at least thrice annually, with sufficient intervals with board meetings.

Audit Committee (%)



BAC in context

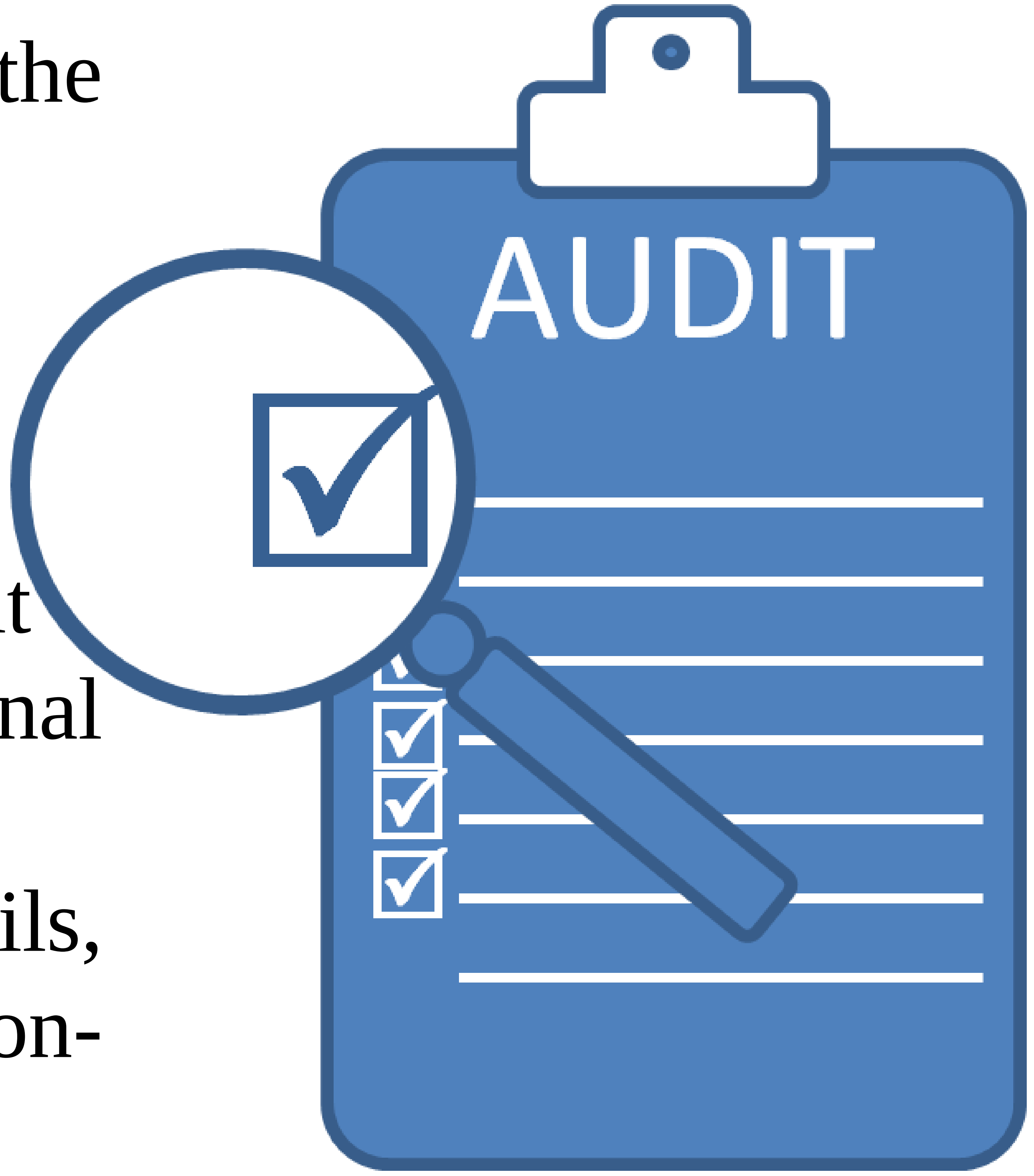
Financial reporting quality assurance



BAC Report

The FRC Guidance on Audit Committees (2016) recommends the following content:

- ✓ Summary of role and work of BAC
- ✓ BAC composition and its meetings
- ✓ BAC performance evaluation
- ✓ Assessment of effectiveness of external audit and internal audit
- ✓ Approach taken on appointment or reappointment of external auditors
- ✓ External auditor: independence, current audit partner details, non-audit services and rationale, audit fees, ratio of audit to non-audit fee
- ✓ Significant issues BAC noted in FS and how they were addressed.



BAC Relationship with the Board

- The BAC should report to the board on how it has discharged its responsibilities, via a report covering significant issues in FS, effectiveness of external and internal audit, internal audit findings..
- BAC makes recommendations on areas of improvement to the board. Adequate time for discussion should be allocated by board and if BAC differs with the board, it should have the right to report the issue to the shareholders, as part of the report on its activities in the annual report.

BAC Relationship with shareholders

The FRC Guidance on Audit Committees (2016) states that BAC has a role in ensuring shareholders' interests are protected in relation to financial reporting and internal control. BAC should:

- Consider clarity of its reporting and be prepared to meet investors;
- Develop for inclusion in the annual report a separate report describing the work of the BAC in discharging its responsibilities, which should be signed by the BAC chair. Refer also to the Tanzania Financial Reporting Standard (TFRS 1) on The Report of Those Charged With Governance.

The chair of BAC should be present at the AGM to answer questions on the separate section of the annual report describing the audit committee activities and matters within the scope of the audit committee's responsibilities.

BAC and External Auditor

SAMBU

- Suitability, appointment and reappointment, fees.
- Independence: Threats include self-interest, self-review, advocacy, familiarity, intimidation
- Non-audit services – restricted to 70% of audit
- Auditor rotation: firm? Partner? 5, 7 or 10 years?
- Quality of audit process.

Role of company secretary in BAC

- Addressing the board on whether it was appropriate to have BAC
- Developing BAC terms of reference, to comply with best practice
- Advising BAC on appropriate composition and succession planning
- Conducting induction to BAC Members, updating them on emerging issues, sourcing expert advisers, organising professional development for BAC, developing annual calendar, provision of resources and logistics and annual performance evaluation.
- Drafting (or reviewing) in liaison with head of audit and BAC chair the audit committee report to be included in the annual report.
- Acting as secretary of the BAC providing governance and procedural advice and logistical support.

BAC Effectiveness

The effectiveness of oversight role depends on the quality of information BAC receives. Company secretary's key role is to ensure the board receives all the relevant information for effective decision-making and then communicates to management and other stakeholders the decisions made by the board. Good practice include:

- Build relationships with members of management team and staff in key positions.
- Read and query where information is not clear in submissions to the board
- Supplement information during the board discussions if this would assist in decision-making process. It can be done via the chair with the knowledge of management.
- have a policy that the company secretary communicates decisions of the board before implementation to avoid doubt
- Address the difficulty of directors to question the proposals from the management.
- During the meetings, encourage the chair to ask views of individual directors in each aspect on the agenda. Watch body language of members and prompt chair to ask for comment. Bring facilitator for specific discussions. Plan for meetings of the board and management outside board meetings to break down barriers and build trust.

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