



Grant Thornton

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Success line

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Season's Greetings



We wish you a happy festive season and prosperous 2014.
Thank you for your support!

Competition Authority

Compiled by Rebecca Sanchez– Manager, Outsourcing and Tax

The Competition Authority is the primary enforcement agency for competition law and policy. It was established under the Competition Act of 2009 to monitor, control and prohibit anti-competitive trade or business practices in the economy of Botswana. The Competition Authority is a parastatal which falls under the Ministry of Trade and Industry.

Competition Law regulates competition among businesses in the economy and therefore creates an economic environment in which the best quality products and services are available at the lowest prices.

Mandate

The mandates of the Competition Authority are:

- Preventing any anti-competition conduct in the economy.
- Removing anything that hinders free competition in the market.
- Investigating and resolving all complaints of anti-competitive conduct in the market.

- Advising government on laws that have or might have anti-competitive effect.
- Investigating and evaluating unfair competition conduct such as bid rigging, price fixing, allocating of customers, agreements between businesses to control production etc.
- Adjudicating applications for mergers (when one company buys a stake or completely buys another company).
- Advising government on all international agreements that have a competition element.

When do you approach Competition Authority?

Part X of the Act deals with Control of Merger which occurs when an enterprise acquires control of another enterprise by way of purchase of shares, lease, assets, or when 2 or more companies are amalgamated to one company.

The Authority has to be informed of a merger if:

- The combined turnover in Botswana of the merging enterprises exceeds P10 000 000
- The combined assets in Botswana of the merging enterprises exceeds P10 000 000
- The enterprises concerned would, following implementation of the merger, supply or acquire at least 20% of a particular description of goods or services in Botswana.

In assessing a proposed merger, the Authority would consider if:

- the proposed merger would prevent or reduce competition in the market; or
- the proposed merger would allow any enterprise to acquire a dominant position in the market.
- the benefits to the public would outweigh the negative effects of dominance of an enterprise in the market,
- production and distribution would improve in the market,

- it would lead to technical or economic progress in Botswana,
- the proposed merger promote a particular industry or sector,
- it would maintain or promote exports from Botswana,
- then proposed merger promote employment opportunities
- it would enhance competitiveness of SMME's,
- it would result empowerment of citizens, and
- the proposed merger could promote international capability of industries.

The Competition Authority may prohibit transactions that are considered a threat to the competitive process, or approve such transactions subject to “remedies” such as

- an obligation not to retrench employees,
- to divest part of the merged business or
- to offer licenses or access to facilities to enable other businesses to continue competing.

What transactions are exempt under this Act

- Agreement relating to the protection, exercise, licensing or assignment of rights under the intellectual property rights;
- Statutory monopolies in Botswana;
- Any practice expressly authorised by any law or scheme.

- Any collective bargaining activity negotiated for any labour legislation;
- Conduct designed to achieve a non-commercial socio-economic objective;
- Any practice, conduct or agreement, that relates to the export of goods and services;
- Any practice, conduct or agreement required under an international agreement; and
- Employment service

Fees

Exemptions:

Application fee :0.01% of the annual
Annual fee: .01% of the annual.

Mergers:

0.01% of the combined turnover or the assets of the merging enterprises, whichever is higher.

Consequence of a wrongful merger

Where the Authority determines, that a merger has been, implemented in contravention of the provisions of this Act, it may give a direction to the enterprise or enterprises involved-

- Not to complete or implement the merger;
- To sell or dispose any shares, interest or other assets it has acquired as a result of the merger;
- To terminate any agreements, or provisions of an agreement, to which the merger was subject; or
- To take such measures as may be necessary to restore to the conditions existing prior to the merger

The Authority can apply to the Court for an order requiring the enterprise to make good the default within a time specified.



IASB unveils new proposals for impairment of financial assets

Extracted from IFRS News, GTIL

Long-awaited proposals vie for acceptance with alternative US approach

The IASB has issued the Exposure Draft 'Financial Instruments: Expected Credit Losses'. It contains proposals aimed at rectifying what was perceived to be a major weakness in accounting during the financial crisis of 2007/8, namely the recognition of credit losses at too late a stage.

The proposals follow on from two earlier exposure documents, a November 2009 Exposure Draft and a 'Supplementary Document' published in January 2011. Should these latest proposals be finalised, they will be incorporated as a chapter in IFRS 9 'Financial Instruments' – the Standard that will eventually replace IAS 39 'Financial Instruments: Recognition and Measurement'. The proposals will affect all entities that hold debt-type financial assets or issue commitments to extend credit that are not accounted for at fair value through profit or loss.

Background to the proposals

During the financial crisis, the delayed recognition of credit losses on loans (and some other financial

assets) was identified as a major weakness in the performance of IAS 39. This was because the 'incurred loss' model used under that Standard delays the recognition of credit losses until there is evidence that a credit loss event has occurred. In addition, IAS 39 was criticised for the complexity arising from the use of different ways of measuring impairment for different categories of asset.

The main proposals

The Exposure Draft proposes an alternative to the incurred loss model that would use more forward-looking information. The perceived complexity of IAS 39 would also be addressed by applying the same impairment model to all financial instruments that are subject to impairment accounting.

Instruments that will be within the scope of the proposals:

- loans and other debt-type financial assets measured at amortised cost
- loans and other debt-type financial assets measured at fair value through other comprehensive income*
- trade receivables
- lease receivables
- loan commitments (for the issuer)
- financial guarantee contracts (for the guarantor)

* the IASB has proposed the introduction of this measurement category in its November 2012 Exposure Draft 'Classification and Measurement: Limited Amendments to IFRS 9 (Proposed amendments to IFRS 9 (2010))'.

Under the proposals, recognition of credit losses would no longer be dependent on the entity first identifying a credit loss event. An entity would instead consider a broader range of information when assessing credit risk and measuring expected credit losses, including:

- past events, such as experience of historical losses for similar financial instruments
- current conditions
- reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the financial instrument.

In applying this more forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk and
 - financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low.
- ‘12-month expected credit losses’ are recognised for the first of these two categories while ‘lifetime expected credit losses’ are recognised for the second category.

risk and the absolute level of risk at the reporting date.

There is also a third stage in the model. For assets for which there is objective evidence of impairment, interest is calculated based on the amortised cost net of the loss provision.

It is envisaged that entities will be able to use their current risk management systems as a basis for implementing these proposals.

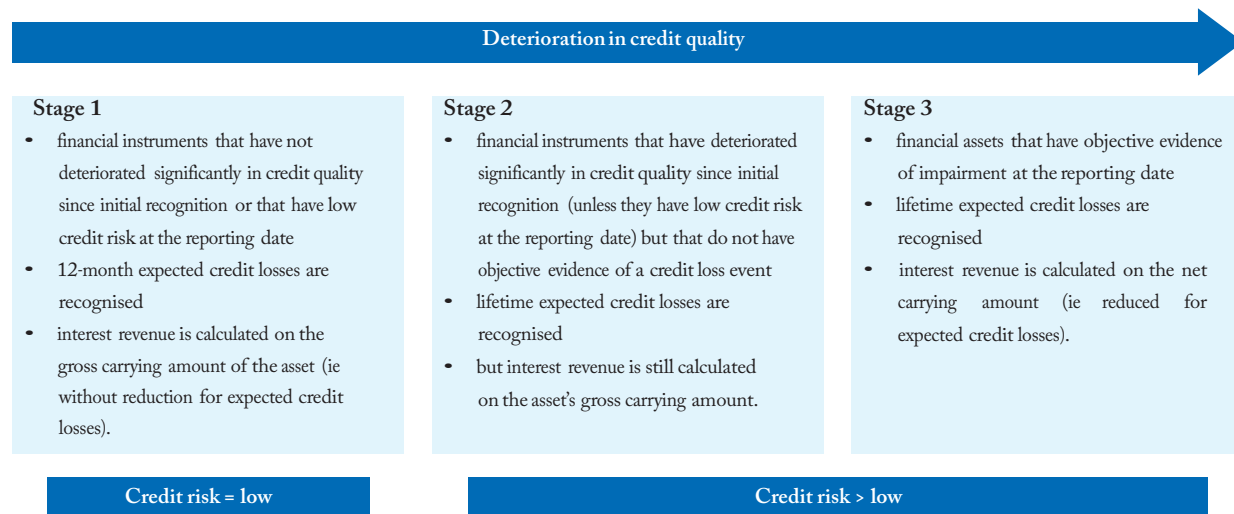
The three-stage process

The three-stage process proposed in the Exposure Draft as a means of reflecting the general pattern of deterioration of credit quality of a financial instrument can be illustrated below.

This three-stage model is symmetrical – in other words, financial assets are reclassified back from stages 2 or 3 (lifetime expected losses) to stage 1 (12-months expected losses) if an earlier significant deterioration in credit quality subsequently reverses, or the absolute level of credit risk becomes low.

What are ‘12-month expected credit losses’?	What are ‘lifetime expected credit losses’?
<p>12-month expected credit losses are calculated by multiplying the probability of a default occurring on the instrument in the next 12 months by the total (lifetime) expected credit losses that would result from that default.</p> <p>They are not the expected cash shortfalls over the next 12 months. They are also not the credit losses on financial instruments that are forecast to actually default in the next 12 months.</p>	<p>Lifetime expected credit losses are the expected shortfalls in contractual cash flows, taking into account the potential for default at any point during the life of the financial instrument.</p>

As noted above, an asset moves from 12-month expected credit losses to lifetime expected credit losses when there has been a significant deterioration in credit quality since initial recognition and the credit risk is more than ‘low’. Hence the ‘boundary’ between 12-month and lifetime losses is based both on the change in credit



A simplified approach for certain assets

In developing the proposals, there was concern that the process of determining whether to recognise 12-month or lifetime expected credit losses was not justifiable for instruments such as trade receivables and lease receivables.

As a result, the IASB has included two simplifications in its proposals:

1) for 'short term' trade receivables, an entity should always recognise a loss allowance at an amount equal to lifetime expected credit losses.

Practical expedients, such as use of a provisioning matrix, are permitted.

2) for 'long-term' trade receivables (ones which constitute financing transactions under IAS 18 'Revenue') and lease receivables, entities would be allowed to choose an accounting policy to always recognise a loss allowance at an amount equal to lifetime expected credit losses.

Convergence with US GAAP

Like the IASB's current standard IAS 39, US GAAP also uses an incurred loss impairment model at the moment.

The two Boards have therefore been working together to develop a more forward-looking model based on expected credit losses and in December 2012, the US Financial Accounting Standards Board (FASB) issued its proposals for a 'current expected credit loss' (CECL) model.

Unlike the IASB Exposure Draft, however, the FASB proposals make no distinction between those financial instruments that have deteriorated in credit quality since initial recognition and those that have not. Instead expected credit losses are always recognised at what the IASB describes in its proposals as lifetime expected credit losses.

Grant Thornton International comment

Given that the comment periods on the IASB Exposure Draft and on the FASB's CECL Exposure Draft overlap, we can expect respondents to compare and contrast the two expected credit loss models and to express a preference for one over the other. Loan loss provisioning is an area where an internationally-converged solution would be highly preferable

– even if the two Boards' overall financial instruments reforms are not fully converged in other areas. It is therefore encouraging that the Boards have committed to jointly re-deliberate their proposals in the light of respondents' comments. We acknowledge that achieving convergence in this area will be challenging but we encourage the Boards to use their best endeavours to do so.

Accordingly, the FASB proposal would generally result in larger loan loss provisions. Both proposals would result in so-called 'day-1 losses' (losses arising immediately on originating or purchasing debt assets) – an outcome that some commentators consider counter-intuitive – but the day-1 loss would be higher under the FASB proposal. While some of the information that is used to estimate and measure expected credit losses is consistent under both the IASB and FASB models, this is a significant difference.



25 years of audit, making a difference in Botswana

Address by Dinesh Mallan – Senior Partner, Audit assurance – at commemoration cocktail in Gaborone on 26 November 2013

Grant Thornton, Botswana celebrates 25 years of audit services in Botswana during 2013. With the various developments in the audit profession over these years, Grant Thornton has made a difference in Botswana over these glorious 25 years.

Evolution of audit profession

The Industrial Revolution and the resulting explosion in growth of business activity led to widespread adoption of auditing methods. During this period auditing began its evolution into a field of fraud detection and financial accountability. Management was hired to operate businesses in the owners' absences, and owners found an increasing need to monitor their financial activities, both for accuracy and for fraud prevention. In early 1900s, the audit practice was considered the "traditional conformance role of auditing". However, for the past 30 years, the auditor has been playing an "enhancing role".

Over time the audit approach has undergone some critical change from verifying the books and records, to relying on system and internal controls placed by the management.

In 2001/2002 the collapse of large corporations like Enron, WorldCom etc brought significant criticism of the audit profession. This has resulted in radical reforms made by the accountancy bodies, governments, stock exchange commissions and other stakeholders to strengthen the audit practice. In United States of America, Sarbanes-Oxley Act was implemented, which addressed issues of auditor's independence, audit quality control, prohibition of conflict of interest in providing services etc. Sarbanes-Oxley Act extended duties of auditors to audit the adequacy of internal controls over financial reporting. All this was done with an aim to protect public interest and restore public confidence.

Today, auditors are expected not only to enhance the credibility of the financial statement, but also to provide value-added services, such as reporting on irregularities, identifying business risks and advising management on the internal control environment to name a few. However any such advice has to stand the test of independence at all times.

Custodian and regulators of audit profession

The custodian and regulators of the audit profession worldwide is the "International Federation of Accountants", shortly known as IFAC; International Accounting and Auditing Standards Board (IAASB), previously International Auditing Practicing Committee (IAPC), develops International Standards on Auditing (ISA's), a rule book, based on which the auditors perform their audit and discharges their responsibilities.

The mission of IFAC, amongst others, is to serve the public interest by continuing to strengthen the worldwide accountancy profession, adherence of high-quality professional standards, speaking out on public interest issues etc. Botswana is one of the 172 members of IFAC foundation and is committed to the adoption of auditing standards issued by IFAC or its various boards and committees. In Botswana, Botswana Institute of Chartered Accountants (BICA) acts as custodian of the audit and accounting profession. BICA endorsed the use of these standards in performing audits.

Significant changes were made in International Standards on Auditing in 2003 as a consequence of corporate failures and implementation of the Sarbanes Oxley Act in United States of America. The most important of them (i.e. ISA 315 - Understanding the Entity and its Environment and Assessing the risk of Material Misstatement; ISA 330 – The Auditor’s procedures in response to Assessed Risks and ISA 500 – Audit Evidence) together they are called “Audit Risk Standards” have completely changed the focus of traditional auditing and moved towards a combination of internal control based auditing and substantive auditing. These new standards have brought in several conforming amendments to several of the existing standards.

Another significant change that occurred in 2005 was the introduction of International Standard on Quality Control (ISQC 1) – Quality Control for Firms that perform audits and reviews of historical financial statements. Every firm was required to have policies and procedures developed in line with the requirements of ISQC 1. Since 2005, there have been several amendments; revisions and new standards in International Standards on Auditing introduced by IAASB on a timely basis to address pertinent issues surrounding the auditing profession.

IAASB continues to dynamically address various issues affecting the audit profession and financial reporting in the light of changes in the world economies, for example, financial recession, and incorporate them into audit standards for compliance by auditors around the world.

The Companies Act of Botswana also made it mandatory for the companies to follow International Standards on Auditing while performing audit under the Act. These initiatives by the Government of Botswana and BICA have taken the Botswana business community and its accounting and audit profession to a level comparable to other countries in the developed world. The Banking Act and other legislation further conferred legal responsibility on auditors for use of these auditing standards while discharging auditors’ responsibilities under said legislation.

The audited financial statements are used by different stakeholders, like shareholders, Banks, BURS, creditors, potential buyers etc. It is of utmost importance that the quality of these audited financial statements is monitored which in turn is achieved by monitoring and regulating the auditors. Towards this end, BICA periodically monitors auditors by registering them as well as by performing quality control reviews, to monitor the auditors and to protect various stakeholders and the public in general.

Important matters affecting your business and how you operate

The Companies Act as well as the Financial Reporting Act, mention specific responsibilities of auditors to report on material irregularity, to Stock Exchange/Botswana Accountancy Oversight Authority (BAOA) if the company is a listed or public interested entity and to Registrar of Companies for proprietary limited companies.

In Botswana we are awaiting regulations to determine the requirement of reporting material irregularities.

The scope of Reportable Material Irregularity is quite broad, if we use South African terms as a benchmark and includes any actions resulting in financial loss to any of the stakeholders, theft or fraud; material breach of any fiduciary duty etc. Further responsibilities of reporting are also cast on auditors, attorneys and other professionals under the Financial Intelligence Act. Clients are expected to implement internal controls to identify such irregularities and address them timeously.

One can agree that, in the current situation, auditors and clients have mutual responsibility to ensure compliance of laws and regulations.

Insight into the role played by Grant Thornton International Limited

In response to the dynamic changes in the audit arena, Grant Thornton International Limited (GTIL) has made significant investment and commitments of resources. GTIL developed its worldwide audit methodology, Horizon and developed tailor-made audit software, Voyager to execute the Horizon audit methodology. Voyager is also bench marked with the latest developments in International Standards on Auditing. This software brings in efficiencies and assists in electronically documenting entire audit documentation. The software has significant features to ensure quality in the work performed by the audit team. The Horizon and Voyager softwares are frequently updated with the changes constantly occurring in the audit field.

The software has built in controls and processes to monitor the audit quality throughout the duration of the audit.

GTIL's ambition is to unlock the potential for growth of our clients as well as our employees. Towards this ambition, Grant Thornton developed various world class training modules and imparted training to each and every member firm representative to develop the firm's own local capacities for imparting the training and development of its people. Our audit Partner,

Madhavan Venkatachary, along with a pool of managers, are our champions for delivery of these world-class training programmes locally in our offices. Grant Thornton brought in global learning initiative which covered both technical as well as non-technical training available to over 35 000 employees of the member firms across the world who can attend on-line training any time of the year. Also they offered several class room training sessions.

To facilitate member firms to deal with various complexities relating to the accounting and auditing field, GTIL also established a specialist service team to develop various practice guidance notes in the field of Auditing and Accounting. Every employee can access these guidance notes and advise our clients across the world on issues relating to their business. This enables each and every member firm to provide high quality audit solutions locally.

Grant Thornton Making a difference in Botswana

In Botswana we embrace the values of our global organisation and we live with those values and every day we try to make a difference to our employees, our environment and most importantly you as our client.

We started as a small audit team under the leadership of Mr. Jay Ramesh 25 years ago and today, we have more than 35 members in our audit team with 17 professionally qualified staff members. Most of our remaining staff members are pursuing professional courses like ACCA and BICA.

We believe our key strength is outstanding people and we continue to invest heavily in the training of our staff members. Each member of the audit team is constantly trained and updated with the audit methodologies as well as soft skills with an objective of empowering them to unlock their potential. These training programmes are held within our offices as well as in other countries. **Through our empowering and training initiative, we believe we made a difference in the lives of our staff members.**

Our ratio of professionally qualified and staff pursuing professional qualification in the audit team is almost 1:1, perhaps highest amongst the professional firms in Botswana. This ratio assists us in mentoring and closely supervising our staff on each and every assignment to ensure best quality in our work.

Our commitment to citizen development is on-going. We have citizen students under full sponsorship programme pursuing professional qualification. The programme includes monetary as well as non-monetary assistance such as availing extra study leaves to our citizen students to achieve their ambition to become a professional accountant and to mitigate the scarcity of professional accountants in the Botswana market.

Through our sponsorship coupled with empowering and training initiative, **we believe we made a difference to our citizen staff.**

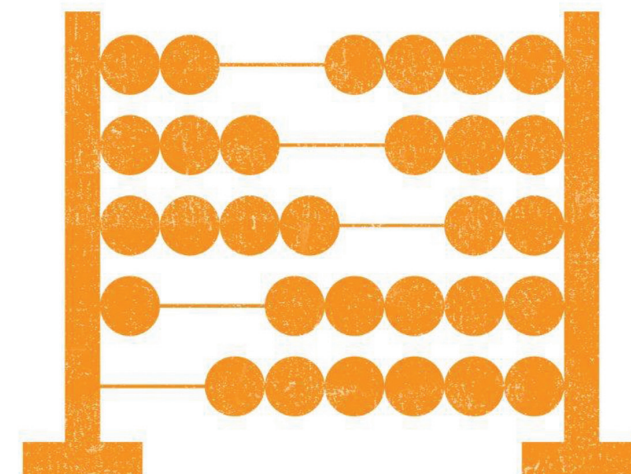
We have promptly introduced and implemented the tools provided by GTI in our audit practice in order to assist our empowered people to provide high quality audit services to our esteemed clients. This assists us in a large way to ensure 100% compliance with the ever changing International Standards on Auditing.

Currently our audit team provides audit services to wide range of industries, such as banking and finance, mining and exploration, property investments, wholesale and retail trade, diamond cutting and polishing, construction, professional service, tourism, hospitality and recreation,

Parastatal and Nongovernmental organisations etc. We have developed our industry expertise in each of these key industry sectors and our partners and managers participate in committees/forums set up by GTIL to further their knowledge on these industry sectors. Aswin Vaidyanathan is our industry expert in mining & exploration, and the public sector. Vijay Kalyanaraman focuses on diamond industry, Madhavan Venkatachary specialises in banking and finance and non-government organisations with myself on construction, tourism and hospitality industry.

With these initiatives, we are dynamically able to provide services in ever changing business situations and provide appropriate solutions to business complexities of valued audit clients. Our highly empowered staff members along with outstanding audit tools provided by GTIL helped us in providing high quality audit services on a consistent basis. We are proud to be your trusted advisors. We believe, we have supported your growth as much as you have supported us. **We believe we have made a difference to our clients.**

Various regulators and inspectors, such as ACCA, Independent Regulatory Board for Auditors of South Africa, GTIL, fellow professional and more recently newly formed Botswana Accountancy Oversight Authority (BAOA), have reviewed our audit files and our firm policies and procedures for compliance with various requirements expected of our profession. We are proud to say, our firm has been successful in each and every such quality control review for the past 15 years, in fact, it is only correct to say since its inception. **This success provides an assurance to us that we have made a difference to the audit profession in Botswana.**



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