

*GOVERNANCE REPORT*

This standard replaces TFRS 1 on The Directors' Report which was issued by the Board effective 1<sup>st</sup> January 2010. The standard becomes operative for financial statements covering accounting periods beginning on or after 1<sup>st</sup> January 2021. Early adoption is allowed.

Below is the detailed Accounting Standard on the *Governance Report*.

INTRODUCTION .....	2
OBJECTIVE .....	4
SCOPE .....	4
DEFINITIONS .....	5
GUIDING PRINCIPLES .....	7
DISCLOSURE REQUIREMENTS .....	10
DETAILS OF PARTICULAR MATTERS .....	10
NATURE OF THE OPERATION .....	11
OBJECTIVES AND STRATEGIES .....	12
PUBLIC SECTOR ENTITIES .....	13
<i>ENTITY OPERATING MODEL</i> .....	14
<i>CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE</i> .....	15
<i>RESOURCES</i> .....	16
<i>PRINCIPAL RISKS, UNCERTAINTIES AND OPPORTUNITIES</i> .....	17
<i>STAKEHOLDERS' RELATIONSHIP</i> .....	18
<i>CAPITAL STRUCTURE AND TREASURY POLICIES</i> .....	19
<i>CASH FLOWS</i> .....	20
<i>LIQUIDITY</i> .....	20
KEY PERFORMANCE INDICATORS .....	21
OTHER PERFORMANCE INDICATORS .....	21
APPOINTMENT OF AUDITORS .....	22
STATEMENT OF RESPONSIBILITY BY THOSE CHARGED WITH GOVERNANCE .....	22
POLITICAL AND CHARITABLE DONATIONS .....	22
EMPLOYEE WELFARE .....	22
DISABLED PERSONS .....	23
STATEMENT OF COMPLIANCE .....	23
PREDJUCIAL ISSUES .....	<b>Error! Bookmark not defined.</b>
PUBLICATION OF THE GOVERNANCE REPORT AND FINANCIAL STATEMENTS .....	23
APPROVAL .....	23
EFFECTIVE DATE .....	24

## INTRODUCTION

1. Tanzania Financial Reporting Standard 'TFRS 1 – *Governance report* is set out in paragraphs 1 to 51 below. All the paragraphs have equal authority. Paragraphs in **bold type** state the main principles and disclosure requirements.

2. Appendix A and B are not part of this \_\_\_\_\_ standard but provides illustrative examples.
3. This Standard is designed as a formulation and development of best practice. It should be applicable to all entities except those entities which apply Financial Reporting Standard for Small and Medium sized Entities (FRSME). Entities applying Financial Reporting Standard for Small and Medium sized Entities (FRSME) may however opt to prepare the report in the spirit of this standard.
4. This Standard requires that those responsible with Governance of entities to prepare the Governance Report addressed to primary users and other stakeholders, setting out their analysis of the entity's operations and financial review, with a forward-looking orientation in order to assist primary users and other stakeholders to assess the strategies adopted by the entity and the potential for those strategies to succeed toward creating value over the short, medium and long term period. The information disclosed in the **Governance report** will also be of relevance to other stakeholders. The Governance report should not, however, be seen as a replacement for other forms of reporting required under the laws.
5. The Governance Report is expected to have the following features in general:
  - (a) It should refer to comments made in the previous periods Directors' reports or governance reports where these have not been overtaken by events;
  - (b) It should contain narrative discussion rather than merely numerical analysis;
  - (c) It should follow 'top-down' structure discussing individual aspects of the business in the context of a discussion of the business as a whole;
  - (d) It should make it clear how any ratio or other numerical information given relate to the financial statements;
  - (e) Assist the users to make informed decisions along with the audited financial statements.
  - (f) The use of simple and non-technical language for primary users and other stakeholders to understand.

**OBJECTIVE**

1. The objective of this Standard is to build on the foundation of the existing best practice by providing a framework within which those responsible for Governance can discuss the main factors underlying an entity's operations, financial performance, financial position and cash flows of the entity. It will also enable **those charged with Governance** to discuss and assess the financial structure and review future prospects of the entity.
2. **The standard will enable primary users and other stakeholders in general to understand how their legitimate interests have been or are accommodated in the entity's current and future plans.**
3. **The standard identifies information to be included in the Governance report for use in assessing an organization's ability to create value; it does not set benchmarks for such things as the quality of an organization's strategy or the level of its performance.**
4. On the other hand, the standard requires compliance with the any additional requirements of the relevant statutory legislations.

**SCOPE**

5. This Standard should be applicable to all entities **except micro entities which may opt to prepare the Governance report.** Entities are urged to follow the spirit of this Standard and use their best endeavors to adapt the detailed guidance to their own circumstances.
6. The report prepared in accordance to this standard should be a balanced, narrative and comprehensive with analytical tool, consistent with the size and complexity of the entity, covering the following areas:
  - a. **the development and performance of the entity's operation during the financial year;**
  - b. **the financial performance, financial position and cash flows of the entity;**
  - c. **the main trends and factors underlying the development, performance, financial position and cash flows of the entity during the financial year;**
  - d. **information on how resources whether or not owned by the entity have been used or affected toward creating value over the short, medium and long term period**
  - e. The main trends and factors underlying the business that have affected the results but are not expected in the future; and those that are likely to affect the entity's future development,
  - f. Known events and uncertainties that are expected to have an impact on the operation in the future, primary users and other stakeholders
  - g. In addition to the requirements of this standard, entities are required to comply with relevant statutory requirements applicable in Tanzania.

## DEFINITIONS

7. The following terms are used in this Standard with the meanings specified:

### Those charged with governance

The person(s) or organization(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. These may include; Accounting Officers (for Ministries and Independent Departments), Trustees (for Pensions); Ministerial Advisory Boards (for Executive Agencies); Boards of Directors (for parastatals); Councilors (for Local Authorities), etc.

### Entity

An entity is something that exists as itself, as a subject or as an object, actually or potentially, concretely or abstractly, physically or not. It can be a corporate or non-corporate, legal or non-legal, private or public.

### Key Performance Indicators (KPIs)

KPIs are factors by reference to which the new developments, operations, performance and financial position of the business of the entity can be measured effectively. They are quantified measurements that reflect the critical success factors of an entity and disclose progress towards achieving a particular objective(s).

### Operating and Financial Review (OFR)

An OFR is a narrative explanation, provided in the governance report, of the main trends and factors underlying the developments, operations, performance, financial position and cash flows of an entity during the financial year covered by the financial statements, and those which are likely to affect the entity's future developments, operations, performance, financial position and cash flows.

### Value Creation

The process that results in increases, decreases or transformations of the resources caused by the organization's activities and outputs.

### Primary users

For the case of profit-oriented entities primary users are referred to as providers of financial capital (including existing and potential investors, lenders and other creditors), whereas, in the public sector they include Citizens.

### Resources

Stocks of value on which all organizations depend for their success as inputs to their model of operation, and which are increased, decreased or transformed through the organization's activities and outputs. Resources are categorized as financial, manufactured, intellectual, human, social and relationship, and natural. Although organizations preparing Governance

report are not required to adopt this categorization or to structure their report along the lines of the resources.

Stakeholders

Those groups or individuals that can reasonably be expected to be significantly affected by an organization's activities, outputs or outcomes, or whose actions can reasonably be expected to significantly affect the ability of the organization to create value over time. Stakeholders may include providers of financial capital, employees, customers, suppliers, business partners, citizens, NGOs, environmental groups, legislators, regulators, policy-makers, civil society organizations and others.

Materiality/Material

A matter is material if it could substantively affect the organization's ability to create value in the short, medium or long term.

Effectiveness:

Provides the measures of the relationship between actual results and service performance objectives.

Efficiency:

Represents the relationship between (a) inputs and outputs, or (b) inputs and outcomes.

Inputs:

These are the resources used by an entity to provide outputs.

Outputs:

Represents the services provided by an entity to recipients external to the entity.

Outcomes:

Represents the impacts on society, which occur as a result of, or are reasonably attributable to, the entity's outputs.

A service performance objective:

A description of the planned result(s) that an entity is aiming to achieve expressed in terms of inputs, outputs, outcomes or efficiency.

**GUIDING PRINCIPLES**

**The following principles underpin the preparation and presentation of the Operating and Financial Review (OFR) in the governance report:-**

8. The OFR should set out an analysis of the business through the eyes of **those charged with governance**.

The OFR should reflect the **view of those charged with governance on the entity's operation/business**. Accordingly, the entity should disclose appropriate elements of information used in managing the entity, including its subsidiary undertakings. Where appropriate, the review may give greater emphasis to those matters which are significant to the entity and its subsidiary undertakings taken as a whole. Such matters may include issues specific to **operating/business** segments where relevant to the understanding of the **operation/business** as a whole. **Those charged with governance** should develop the presentation of their OFR in a way that reflects annual report as a whole.

9. The OFR should focus on matters that are relevant to the interests of primary users and other stakeholders.

The needs of primary user are paramount when **those charged with governance** consider what information should be contained in the OFR. Information in the OFR will also be of interest to other stakeholders for **example customers, suppliers, business partners, NGOs, environmental groups, legislators, regulators, policy-makers, civil society organizations, and others**. **Those charged with governance** should consider the extent to which they should report on issues relevant to those stakeholders where, because of the influence of those issues on the performance of the entity and its value, they are also of significance to primary users and other stakeholders. The OFR should not, however, be seen as a replacement for other forms of reporting addressed to a wider stakeholder group.

10. The OFR should have a forward-looking orientation, identifying those trends and factors relevant to the primary users and other stakeholders' assessment of the current and future performance of the entity and the progress towards the achievement of entity's long-term objectives.

10.1 The particular factors discussed should be those that have affected development, operations, performance, and financial position during the financial year and those which are likely to affect the entity's future development, operations, performance and financial position.

10.2 Given the nature of some forward-looking information, in particular elements that cannot be objectively verified but have been made in good faith, **those charged with governance** may want to include a statement in the OFR to treat such elements with caution, explaining the uncertainties underpinning such information.

10.3 The OFR should comment \_\_\_\_\_ on the impact on future performance of significant events after the reporting date.

10.4 The OFR should also discuss predictive comments, both positive and negative, made in previous reviews whether or *not these have been borne out by events*.

10.5 **The OFR should provide insights into the organization strategies and how they relate to the organization ability to create value in the short, medium and long term.**

**11. The OFR should complement as well as supplement the audited financial statements, in order to enhance the overall entity disclosure.**

11.1 In complementing the financial statements, the OFR should provide useful financial and non-financial information about the entity and its performance that is not reported in financial statements but which, **those charged with governance** judge, might be relevant to the primary users and other stakeholders' evaluation of past results and assessment of future prospects.

11.2 In supplementing the audited financial statements, the OFR should where relevant:

- provide additional explanations of amounts reported in the audited financial statements;
- explain the conditions and events that shaped the information contained in the audited financial statements.

Where amounts from the audited financial statements have been adjusted for inclusion in the OFR, that fact should be highlighted and reconciliation provided.

**12. The OFR should be comprehensive, understandable and consider materiality.**

**12.1 Those charged with governance** should consider whether the omission of information might reasonably be expected to influence significantly the assessment made by **primary users and other stakeholders**.

**12.2** The fact that the OFR to be comprehensive does not mean that the OFR should cover all possible matters: the objective is quality, not quantity of contents. It is neither possible nor desirable for this Standard to list all the elements that might need to be included, since these will vary depending on the nature and circumstances of the particular entity and how it runs its operations.

**12.3 Those charged with governance** should consider the evidence underpinning the information to be included in the OFR. Where relevant, **those charged with governance** should explain the source of the information and the degree to which the information is objectively supportable, to allow **primary users and other stakeholders** to assess the reliability of the information presented for themselves.



**12.4** Those charged with governance should consider the key issues to include in the OFR that will provide primary users and other stakeholders with focused and relevant information. The inclusion of too much information may obscure judgements and will not promote understanding. Where additional information is discussed elsewhere in the annual report, or in other reports, cross-referencing to those sources will assist primary users and other stakeholders.

**12.5** The OFR should be written in a clear and readily understandable style.

**12.6** The OFR should consider relevant matters based on their ability to affect value creation, whereby relevant matters are those that have, or may have, an effect on the organization's ability to create value. This is determined by considering their effect on the organization's strategy, governance, performance or prospects.

**13.** The OFR should be balanced and neutral, dealing with both good and bad aspects.

**13.1** Those charged with governance should ensure that the OFR retains balance and that primary users and other stakeholders are not misled as a result of the omission of any information on unfavorable aspects.

**14.** The OFR should be comparable over time.

**14.1** Disclosure should be sufficient for the primary users and other stakeholders to be able to compare the information presented with similar information about the entity for previous financial years. Comparability enables identification of the main trends and factors, and their analysis, over successive financial years. Those charged with governance may wish to consider the extent to which the OFR is comparable with reviews prepared by other entities in the same industry or sector.

## DISCLOSURE REQUIREMENTS

Paragraphs 15 to 51 below set out the requirements for the disclosures to be provided by those charged with governance in an OFR. This disclosure requirement is not a template, nor should the elements in paragraph 15 be taken as headings that should be included within an OFR. Its purpose is to set out the key content elements that should be addressed within an OFR. It is for those charged with governance to consider how best to use the requirements to structure the OFR and the precise content, including the level of detail to be disclosed, relating to the key elements, given the particular circumstances of the entity. These circumstances may include:

- a. the industry or industries in which it operates;
- b. the range of products, services or processes it offers;
- c. the number of markets it serves.
- d. Legal requirements
- e. Extent of accountability

**15 The OFR should provide information to assist primary users and other stakeholders to assess the strategies adopted by the entity and the potential for those strategies to succeed toward short, medium and long term value creation process. The key elements of the disclosure requirements recommended to achieve this are:**

- a. the nature of the entity's operation, including a description of the market, competitive and regulatory environment in which the entity operates, and the entity's objectives and strategies;
- b. the development and performance of the entity, both in the financial year under review and in the future;
- c. the resources, principal risks and uncertainties and relationships that may affect the entity's value creation process in the short, medium and long term period; and
- d. Description of the entity's capital structure, treasury policies and objectives and liquidity of the entity, both in the financial year under review and the future.
- e. Resource Accountability requirements

## DETAILS OF PARTICULAR MATTERS

**16 To the extent necessary to meet the recommendations set out in paragraph 15 above, the OFR should include information about:**

- a. environmental matters (including the impact of the operation of the entity on the environment);
- b. the entity's employees;
- c. social and community issues;
- d. governance;
- e. entity's operating model;
- f. gender parity;
- g. persons with whom the entity has contractual or other arrangements which are essential to the operation of the entity;

- h. receipts from, and returns to, primary users of the entity in respect of shares held by them;
- i. for public sector entities, effectiveness and efficiency utilization of resources; and
- j. all other matters that those charged with governance consider to be relevant.

**17 For items (a) to (j) in paragraph 16, the OFR should, in particular, include:**

- a. the policies of the entity in each area mentioned; and
- b. the extent to which those policies have been implemented.

## NATURE OF THE OPERATION

**18 The OFR should include a description of the operations and the external environment in which it operates as context for those charged with governance to discuss and analyze performance and financial position.**

18.1 A description of the entity's operation is recommended in order to provide primary users and other stakeholders with an understanding of the: -

- (a) industry or industries in which the entity operates,
- (b) its main products, services, customers, business processes and distribution methods,
- (c) structure of the entity's operation, and its economic model, including an overview of the main operating facilities and their location.
- (d) for public sector entities, effectiveness and efficient utilization of resources

18.2 Every entity is affected by its external environment. Depending on the nature of the operation, the OFR should include discussion of matters such as the: -

- (a) entity's major markets and competitive position within those markets for example, an entity may disclose the fact that it has significant operations in a number of different countries, which could have an impact on the future development and performance of the business.
- (b) The legislative and regulatory environment in which the organization operates.
- (c) The legitimate needs and interests of key stakeholders
- (d) Macro and micro economic conditions, such as economic stability, globalization, and industry trends
- (e) Market forces, such as the relative strengths and weaknesses of competitors and customer demand
- (f) The speed and effect of technological change
- (g) Societal issues, such as population and demographic changes, human rights, health, poverty, collective values and educational systems
- (h) Environmental challenges, such as climate change, the loss of ecosystems, and resource shortages as planetary limits are approached
- (i) The political environment in countries where the organization operates and other countries that may affect the ability of the organization to implement its strategy.

---

## OBJECTIVES AND STRATEGIES

**19 The OFR should discuss the objectives of the entity to generate or preserve value over the longer term.**

19.1 Objectives will often be defined in terms of financial performance; however, objectives in non- financial areas should also be discussed where appropriate.

19.2 The nature of the industry will affect the determination by those charged with governance on the appropriate time perspective for reporting in the OFR. For example, an entity that focuses on large long-term projects must carry out its strategic planning over the full project lifecycle, which may be 20 years or more. Furthermore, where a project has a long-term impact on the environment, this is likely to affect long-term value and should therefore determine the time perspective for reporting in the OFR. By contrast, a service industry with few physical assets and depending on the supply of particular employee skills for its source of competitive advantage, will plan over a period consistent with its ability to recruit, train and develop its staff, which may be a much shorter period.

**20 The OFR should set out the strategies for achieving the objectives of the entity.**

20.1 Disclosure of strategies of those charged with governance is recommended in order for primary users and other stakeholders to assess the current and past action undertaken by those charged with governance in respect of the stated objectives including

- (a) The organization's short, medium and long term strategic objectives
- (a) The strategies it has in place, or intends to implement, to achieve those strategic objectives
- (b) The resource allocation plans it has to implement its strategies

**21 To the extent necessary to meet principles set out in paragraph 15 above, the OFR should include the key performance indicators, both financial and, where appropriate, non-financial, used by those charged with governance to assess progress against their stated objectives.**

21.1 The KPIs disclosed should be those that those charged with governance judge are effective in measuring the delivery of their strategies and managing their operation/business. Regular measurement using KPIs should enable an entity to set and communicate its performance targets and to measure whether it is achieving them.

21.2 Comparability will be enhanced if the KPIs disclosed are accepted and widely used, either within the industry sector or more generally.

22 **Those charged with governance** should also consider the extent to which other measures and evidence should be included in the \_\_\_\_\_ OFR.

22.1 These could be narrative evidence describing how **those charged with governance** manage the entity's operations or quantified measures used to monitor the entity's external environment and/or progress towards the achievement of its objectives.

### **PUBLIC SECTOR ENTITIES**

23 **Public sector entities are generally service providers. They shall be required to prepare Service Performance Information as articulated under this paragraph. Appendix 3 sets out as a Sample of the Statement of Service Performance Information.**

**23.1 An entity shall present service performance information that is useful to users for accountability and decision-making purposes. Presentation will enable primary users and other stakeholders to assess the extent, efficiency and effectiveness of the entity's service performance. Service performance information shall provide the link between all service performance objectives with respective inputs, outputs and outcomes. Measures of inputs, outputs, and outcomes may be financial or non-financial and qualitative or quantitative. The measures shall help primary users and other stakeholders with:**

- (a) Their assessment of whether service performance objectives have been achieved; and**
- (b) Make inter-period and inter-entity comparisons of service performance.**

**23.2 Service performance objectives may be expressed using a narrative description of a desired future state resulting from provision of services. Service performance objectives will generally be specific, measurable, achievable, realistic and time-bound as approved by governance authorities.**

**23.3 The service performance information presented shall take account of the entity's specific circumstances, such as:**

- (a) The services that the entity provides;**
- (b) The nature of the entity; and,**
- (c) The regulatory environment in which the entity operates.**

**23.4 In selecting service performance information, the following information shall be displayed:**

- (a) Service performance objectives;**
- (b) Performance indicators; and,**
- (c) Total costs of the services.**

**23.5 With respect to performance indicators and the total costs of the services, the entity shall display:**

- (a) Planned and actual information for the reporting period; and
- (b) Actual information for the \_\_\_\_\_ previous reporting period.

**23.6** Where service performance information includes information that is also in the financial statements, cross-references to the financial statements should be presented so that users can assess the information within the context of the financial information reported in the financial statements.

**23.7** Planned and actual service performance information should be reported consistently so that users' assessments of effectiveness are facilitated. Wherever possible, entities should report on the same performance indicators, with the same methodology and parameters for their computation, as that established before the start of the reporting period. This enables primary users and other stakeholders to compare actual performance with planned performance at the end of the reporting period.

**23.8** Judgment is needed to decide what information should be disclosed so that primary users and other stakeholders:

- (a) Understand the basis of the displayed service performance information; and,
- (b) Receive a concise overview of the entity's service performance, which highlights the main issues relevant to their assessment of that service performance.

**23.9** An entity may present service performance information either:

- (a) As part of the governance report; or,
- (b) In a separately issued statement in the financial statements.

## **ENTITY OPERATING MODEL**

**24** The OFR should include description about entity's operating model of which it is referred to as a system of transforming inputs, through its operating activities, into outputs and outcomes that aims to fulfil the organization's strategic purposes and create value over the short, medium and long term.

**25** A description about the entity operating model should cut across the inputs, operating activities outputs and outcomes as follows:-

- (a) Inputs  
The OFR should show how key inputs relate to the resources on which the organization depends, or that provide a source of differentiation for the organization, to the extent they are material to understanding the robustness and resilience of the operating model.
- (b) Operating/Business Activities  
The OFR should describe key operating activities. This can include:
  - How the organization differentiates itself in the market place (e.g., through product differentiation, market segmentation, delivery channels and marketing

- The extent to which the operating model relies on revenue generation after the initial point of sale (e.g., extended warranty arrangements or network usage charges)
  - How the organization approaches the need to innovate
  - How the operating model has been designed to adapt to change.
- (c) Outputs The OFR should identify an organization’s key products and services. There might be other outputs, such as by-products and waste (including emissions), that need to be discussed within the entity operating model disclosure depending on their materiality.
- (d) Outcomes  
The OFR should describe key outcomes, including:
- Both internal outcomes (e.g., employee morale, organizational reputation, revenue and cash flows) and external outcomes (e.g., customer satisfaction, tax payments, brand loyalty, and social and environmental effects)
  - Both positive outcomes (i.e., those that result in a net increase in the resources and thereby create value) and negative outcomes (i.e., those that result in a net decrease in the resources and thereby diminish value).

## CURRENT AND FUTURE DEVELOPMENT AND PERFORMANCE

**26** The OFR should describe the significant features of the development and performance of the entity in the financial year covered by the financial statements, focusing on those operating segments that are relevant to an understanding of the development and performance as a whole.

**26.1** Trends and factors in development and performance suggested by an analysis of the current and previous financial years should be highlighted. Development and performance should be described in the context of the strategic objectives of the entity’s operations.

**26.2** The OFR should cover significant aspects of the statements of financial performance and where appropriate should be linked to other aspects of performance i.e. the linkages between past and current performance and between current performance and the organization outlook.

**26.3** The OFR should set out the analysis by those charged with governance about the effect on current development and performance of changes during the financial year in the industry or the external environment in which the business operates for example, changes in market conditions could have an impact on the development and performance of the entity during the period.

**26.4** The state of key stakeholder relationships and how the organization has responded to key stakeholders’ legitimate needs and interests, for example the introduction, or announcement, of new products and services.

**27** The OFR should analyze the main trends and factors that those charged with governance consider likely to impact future \_\_\_\_\_ prospects.

**27.1** The OFR should discuss the current level of investment expenditure together with planned future expenditure and should explain how that investment is directed to assist the achievement of entity's objectives. Any assumptions underlying the main trends and factors should be disclosed.

**27.2** The OFR should ordinarily highlight anticipated changes over time and provides information, built on sound and transparent analysis, about:

- (a) The organization's expectations about the external environment the organization is likely to face in the short, medium and long term
- (b) How that will affect the organization
- (c) How the organization is currently equipped to respond to the critical challenges and uncertainties that are likely to arise.

**27.3** Those charged with governance should consider the potential future significance of issues in deciding whether or not to include an analysis of them in the OFR.

## RESOURCES

**28** The OFR should include a description of the resources available to the entity and how they are managed.

**28.1** The OFR should provide disclosures about all available resources such as financial, intellectual, human, natural, manufactured and social and relationship resources, and these are determined by their effects on the organization's ability to create value over time, rather than whether or not they are owned by the organization,

**28.2** Because value is created over different time horizons and for different stakeholders through different resources, it is unlikely to be created through the maximization of one resource while disregarding the others. For example, the maximization of financial resource (e.g., profit) at the expense of human resource (e.g., through inappropriate human resource policies and practices) is unlikely to maximize value for the organization in the longer term.

**28.3** The OFR should set out the key strengths and resources, tangible and intangible, available to the entity, which will assist it in the pursuit of its objectives and how they create value over time, and, in particular, those items that are not reflected in the statement of financial position. Depending on the nature of the business, these may include:

- (a) Intellectual resources, i.e.
  - Intellectual properties, example patents, copyrights, software, rights and licenses
  - Organization capital, example tacit knowledge, systems, procedures and protocols



- (b) Human resource referring to people’s competencies, capabilities and experience, and their motivations to innovate, including their:
- alignment with and support for an organization’s governance framework, risk management approach, and ethical values
  - ability to understand, develop and implement an organization’s strategy
  - loyalties and motivations for improving processes, goods and services, including their ability to lead, manage and collaborate
- (c) Social and relationship resources – The institutions and the relationships within and between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being. Social and relationship capital includes:
- shared norms, and common values and behaviors
  - key stakeholder relationships, and the trust and willingness to engage that an organization has developed and strives to build and protect with external stakeholders
  - intangibles associated with the brand and reputation that an organization has developed
  - an organization’s social licenses to operate
- (d) Natural resources – All renewable and nonrenewable environmental resources and processes that provide goods or services that support the past, current or future prosperity of an organization. It includes:
- air, water, land, minerals, oil or gas and forest
  - biodiversity and eco-system health.
- (e) Other resources, such as market position and government policies/regulations.

28.4 The OFR should also include factors that affect their availability, quality and affordability and the organization’s expectations of its ability to produce flows from these resources to meet future demand.

## **PRINCIPAL RISKS, UNCERTAINTIES AND OPPORTUNITIES**

**29** The OFR should include a description of the principal risks and uncertainties facing the entity, together with a commentary on their mitigation approach.

**29.1** While different industries and entities use different risk models or approaches for identifying and managing risk, all entities face and should disclose strategic, commercial, operational and financial risks where these may significantly affect the entity’s strategies and development of the entity’s value.

- 29.2** The principal risks and uncertainties facing entities will vary according to the nature of the entity's operation, although \_\_\_\_\_ it is expected that some risks, such as reputation risk, will be common to all.
- 29.3** The description of the principal risks and uncertainties should cover both the exposure to negative consequences as well as potential opportunities.
- 29.4** The OFR should cover the principal risks and uncertainties necessary for an understanding of the objectives and strategies of the entity, both where they constitute a significant external risk to the entity, and where the entity's impact on other parties through its activities, products or services, affects its performance. Those charged with governance should consider the full range of risks involved.
- 29.5** Those charged with governance should disclose the policy for managing principle risks, which among other things should include:-
- (a) The organization's assessment of the likelihood that the risk or opportunity will come to fruition and the magnitude of its effect if it does. This includes consideration of the specific circumstances that would cause the risk or opportunity to come to fruition.
  - (b) The specific steps being taken to mitigate or manage key risks or to create value from key opportunities, including the identification of the associated strategic objectives, strategies, policies, targets and KPIs
- 29.6** For the case of uncertainty surrounding a matter, an entity should disclose the following:
- (a) an explanation of the uncertainty
  - (b) the range of possible outcomes, associated assumptions, and how the information could change if the assumptions do not occur as described
  - (c) the volatility, certainty range or confidence interval associated with the information provided

### STAKEHOLDERS' RELATIONSHIP

- 30** To the extent necessary to meet the principles set out in paragraph 15 above, the OFR should include information about significant relationships with stakeholders other than primary users, who are likely, directly or indirectly, to influence the performance of the entity and its value.
- 30.1** Disclosures should be made on how key stakeholders' legitimate needs and interests are understood, taken into account and responded to through decisions, actions and performance, as well as ongoing communication.
- 30.2** This type of disclosure helps primary users and other stakeholders to understand how an entity's relationships influence the nature of its operation and whether an entity's relationships expose the business to substantial risk, in deciding what should be included in the OFR, those charged with governance should take a broad view in identifying the: -

- (a) significant relationships that the entity has with stakeholders,
- (b) how those relationships are likely to affect the performance and value of the entity, and,
- (c) how those relationships are managed.

**30.3 The relationship with stakeholders may include the relationship with but not limited to:**

- (a) employees,
- (b) customers,
- (c) creditors,
- (d) Contractors,
- (e) Lenders
- (f) suppliers,
- (g) business partners,
- (h) local communities,
- (i) legislators,
- (j) regulators,
- (k) Policy-makers, and
- (l) Civil Societies.

**30.4 For profit oriented entities, the OFR should describe receipts from, and returns to, shareholders in relation to shares held by them. This should include a description of any distributions, capital raising and share repurchases.**

***CAPITAL STRUCTURE AND TREASURY POLICIES***

**31 The OFR should contain an analysis of the financial position of the entity.**

**31.1** The analysis, whilst based upon the audited financial statements, should comment on the events that have impacted the financial position of the entity during the financial year, and future factors that are likely to affect the financial position going forward.

**31.2** The analysis should discuss effective utilization of long lasting assets, movements during the year and the ability to sustain future operation.

**32 The OFR should contain a discussion of the capital structure of the entity.**

32.1 This could include the balance between equity and debt, the maturity profile of debt, type of capital instruments used, currency, regulatory capital and interest rate structure. The discussion should include comments on short and longer-term funding plans to support the strategies of those charged with governance to achieve the entity's objectives. In addition, the discussion should comment on why the entity has adopted its particular capital structure.

**33 The OFR should set out the entity's treasury policies and objectives.**

- a. The OFR should also discuss the implementation of these policies in the financial year under review.
- b. The purpose and effect of major financing transactions undertaken up to the date of approval of the financial statements should be explained. The effect of interest costs on profits and the potential impact of interest rate changes should also be discussed.

## **CASH FLOWS**

### **34 The OFR should discuss the cash inflows and outflows during the financial year, along with the entity's ability to generate cash, to meet known or probable cash requirements and to fund growth.**

- 34.1 Any discussion should supplement the information provided in the financial statements by, for example, commenting on any special factors that have influenced cash flows in the financial year and those that may have a significant effect on future cash flows. This could include, for example, the existence and timing of commitments for capital expenditures and other known or probable cash requirements. Where entities have cash that is surplus to future operating requirements and current levels of distribution, the discussion should include future plans for making use of the excess cash.

## **LIQUIDITY**

### **35 The OFR should discuss the entity's current and prospective liquidity. Where relevant, this should include commentary on the level of borrowings, the seasonality of borrowing requirements (indicated by the peak level of borrowings during that period) and the maturity profile of both borrowings and undrawn committed borrowing facilities.**

- a. The discussion on liquidity should discuss the ability of the entity to fund its current and future operations and stated strategies.
- b. The discussion should cover internal sources of liquidity, referring to any restrictions on the ability to transfer funds from one part of the group to meet the obligations of another part of the group, where these represent, or might foreseeably come to represent, a significant restraint on the group. Such constraints would include exchange controls and taxation consequences of transfers.
- c. Where the entity has entered into covenants in financing contracts which could have the effect of restricting the use of financing arrangements or credit facilities, and negotiations with the lenders on the operation of these covenants are taking place or are expected to take place, this fact should be indicated in the OFR. Where a breach of a covenant has occurred or is expected to occur, the OFR should give details of the measures taken or proposed to remedy the situation.

**KEY PERFORMANCE INDICATORS**

**36** An entity should provide information that enables primary users and other stakeholder to understand each KPI disclosed in the OFR.

**37** For each KPI disclosed in the OFR, the entity should explain:

- the definition and its calculation method and current level ;
- its purpose ;
- related assumptions and disclose the source of underlying data;
- quantification or commentary on future targets i.e. communicating the direction the entity is taking by, for example, setting out future strategies and goals;
- fact where information from the financial statements has been adjusted for inclusion in the OFR and provide related reconciliation;
- where available, corresponding amount for the financial year immediately preceding the current year ; and
- any changes to KPIs and the calculation method used compared to previous financial years, including significant changes in the underlying accounting policies adopted in the financial statements.

**OTHER PERFORMANCE INDICATORS**

**38** Where a quantified measure, other than a KPI, is included, the OFR should disclose:

- the definition and its calculation method; and
- where available, corresponding amount for the financial year immediately preceding the current year.

**CORPORATE GOVERNANCE ISSUES**

**39** The Governance Report shall contain a detailed “Corporate Governance Statement” showing how it has complied with the principles and codes of best practice.

**40** Membership of the those charged with governance:

The Governance Report must state the names of all persons who at any time during the accounting period, or at the time the audited financial statements were adopted by those charged with governance, functioned either as the Chief Executive or Chairpersons, and as members of those charged with governance and shall be disclosed with particulars of nationality, qualification, gender, position within the Governance Structure, duration since appointed within the entity and whether regulatory requirements influence the design of the governance structure. It shall also state the number of times they held governance meetings and a brief of what was discussed in those meetings including its attitude to risk and mechanism for addressing integrity and ethical issues.

**41** Committees of those charged with governance:

The Governance Report must state the committees of those charged with governance and the members of those committees. It shall also state planned meetings and actual meetings held during the year; attendance and a brief of what was discussed in those meetings.

42 The report should include information on how the organization's culture, ethics and values are reflected in its use of and effects on the capitals, including its relationships with key stakeholders

#### APPOINTMENT OF AUDITORS

43 The Governance Report should disclose the information of the entity's auditor for the period covered by the report, including:

- Name of the Auditor
- Physical Address
- Firms' registration and TIN numbers
- How the auditor is appointed and any rotation requirement.

#### STATEMENT OF RESPONSIBILITY BY THOSE CHARGED WITH GOVERNANCE

44 In the governance report, it should be clearly stated that it is the responsibility of the those charged with governance to prepare financial statements of the entity which show a true and fair view in accordance with applicable standards, rules, regulations and legal provisions.

45 This responsibility covers the period from the beginning of the financial year to the date those charged with governance approve the audited financial statements and it covers all those charged with governance who acted in this capacity during any part of the period covered by financial statements.

#### POLITICAL AND CHARITABLE DONATIONS

46 Where an entity has made political or charitable donations during the accounting period.

46.1 The following information should be provided in the governance report:

- separate totals of the political and charitable donations
- names of the individual political recipients of the donations.

46.2 It is not necessary to include the names of recipients of charitable donations in the governance report.

#### EMPLOYEE WELFARE

47 An entity should include a statement which describes the actions that have been taken during the accounting period to introduce, maintain or develop arrangements whose objectives are to increase employees' welfare, and make them aware and possibly participate in decisions

affecting their interests, maintenance of harmonious relationship and enhancement of the performance of the entity.

- 48 The governance report should also disclose particulars of pension fund in which employees belong.

#### DISABLED PERSONS AND GENDER BALANCE

- 49 For revealing the efforts of the entity to promote the welfare of disabled persons, there shall be a disclosure of the policy of the entity in respect of:

- (a) employment of disabled persons;
- (b) the continued employment and training of persons who become disabled whilst employed by the enterprise; and
- (c) the training, development and promotion of disabled persons

- 50 Statement that the entity is an equal gender employer and efforts being taken to maintain gender balance.

#### PREDJUCIAL ISSUES

- 51 Entities shall report all issues which were outside the control of the respective entity in achieving their objectives.

#### STATEMENT OF COMPLIANCE

- 52 There will be a clear statement within the Governance report of compliance with the provisions of this Standard and all other statutory legislations relevant to the entity .

#### PUBLICATION OF THE GOVERNANCE REPORT AND AUDITED FINANCIAL STATEMENTS.

- 53 All Public sector entities and those designated as Public Interest Entities (PIEs) shall be required to publish in their websites the Governance report along with audited financial statements within 30 days after the approval of the audited financial statements by those charged with governance. The responsibility for the publication rests with those charged with governance as per the requirements of the NBAA Technical Pronouncement No.1 of 2018.

#### APPROVAL

- 54 The Governance Report must be approved by those charged with governance and signed by the person(s) authorized by the Board of those charged with governance, indicating names, designations and date of the approval.

EFFECTIVE DATE

---

- 55 ***This standard replaces TFRS 1 on Directors' Report that was issued by the NBAA on 1st January 2010. This standard becomes operative for financial statements covering accounting periods beginning on or after 1<sup>st</sup> January 2021. Early adoption is allowed.***