

**DIRECTIVE 2013/13/EAC
OF THE COUNCIL OF MINISTERS**

of

(Date of Approval by Council of Ministers)

**DIRECTIVE OF THE EAC ON CORPORATE
GOVERNANCE FOR LISTED COMPANIES**

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Preamble

The Council of Ministers of the East African Community

Having regard to the Treaty establishing the East African Community and in particular Articles 85 (d), 14 and 16;

Having regard to the recommendations of the Sectoral Council on Finance and Economic Affairs;

WHEREAS Article 31 of the Common Market Protocol provides that for proper functioning of the Common Market the Partner States undertake to co-ordinate and harmonies their financial sector policies and regulatory framework to ensure the efficiency and stability of their financial systems as well as the smooth operations of the payment system;

WHEREAS Article 47 of the Common Market Protocol provides that the Partner States shall undertake to approximate their national laws and to harmonize their policies and systems for purposes of implementing this Protocol and that the Council shall issue directives for the purposes of implementing this Article;

HAS ADOPTED THIS DIRECTIVE

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ARTICLE 1 INTERPRETATION

“**Board**” means the Board of directors of a listed company;

“**Corporate governance**” is the process and structure used to direct and manage business affairs of the company towards enhancing prosperity and corporate accounting with the ultimate objective of protecting and promoting shareholders’ rights and realizing shareholders’ long term value while taking into account the interests of Stakeholders;

“**Executive Director**” means a person who is appointed to the Board and concurrently holds a senior management position in a company and for avoidance of doubt includes the Chief Executive Officer, General Manager or Managing Director;

“**Independent director**” means a non –executive director who:

- a) is not a representative of a shareholder who has the ability to control or significantly influence management or the Board;
- b) does not have a direct or indirect interest in the company (including any parent or subsidiary in a consolidated group with the company) which exceeds 5% of the group’s total number of shares in issue;
- c) does not have a direct or indirect interest in the company which is less than 5% of the group’s total number of shares in issue but is material to his personal wealth;
- d) has not been employed by the company or the group of which it currently forms part in any executive capacity or appointed as the designated auditor or partner in the group’s external audit firm, or senior legal adviser for preceding three financial years;
- e) is not a member of the immediate family of an individual who is, or has during the preceding three financial years, been employed by the company or the group in an executive capacity;
- f) is not a professional adviser to the company or group, other than as a director;
- g) Is free from any business or other relationship ,contractual or statutory, which could be seen by an objective outsider to interfere materially with the individual’s capacity to act in an independent manner, such as being a director of a material customer or supplier to the company; or
- h) does not receive remuneration contingent upon the performance of the company;

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“Substantial shareholder” means a person who holds at least fifteen percent of the voting rights of a listed company and has the ability to exercise a majority voting for the election of the Director;

“Non-executive director” means a director who is not involved in the administrative or managerial operations of the company.

ARTICLE 2 OBJECTIVES

1. This Directive is a minimum standard for good corporate governance practices by Listed Companies in the Community;
2. This Directive has been developed in recognition of the role of good corporate governance in corporate performance, capital formation and maximization of shareholders value as well as protection of investors’ interests.

ARTICLE 3 PRINCIPLES

In implementing this Directive Partner states shall ensure that Listed Companies shall:

1. promote transparent and efficient markets, be consistent with the rule of law and clearly articulate the division of responsibilities among different supervisory, regulatory and enforcement authorities;
2. protect and facilitate the exercise of shareholders’ right;
3. ensure the equitable treatment of all shareholders, including minority and foreign shareholders. All shareholders should have the opportunity to obtain effective redress for violation of their rights;
4. recognise the rights of stakeholders established by law or through mutual agreements and encourage active co-operation between corporations and stakeholders in creating wealth, jobs, and the sustainability of financially sound enterprises;
5. ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company;

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6. 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.

ARTICLE 4 SCOPE

This Directive shall apply to all listed companies in the Community.

ARTICLE 5 DISCLOSURE OBLIGATIONS

1. Partner states shall ensure that the extent of compliance of these Directives shall form an essential part of disclosure obligations of listed companies Annual Reports.
2. The information to be included in the Annual reports relating to compliance shall be as stated in the Schedule to this Directive.

PART I THE BOARD OF DIRECTORS

ARTICLE 6 THE BOARD

Every company shall be headed by an effective Board to offer strategic guidance, lead and control the company and be accountable to its shareholders and responsible to its stakeholders.

ARTICLE 7 PRIMARY RESPONSIBILITY OF THE BOARD

The Board of Directors shall assume a primary responsibility of fostering the long-term business of the company consistent with their fiduciary responsibility to the shareholders.

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ARTICLE 8 FUNCTIONS OF THE BOARD

Board members shall accord sufficient time for their functions and act on a fully-informed basis, while treating all shareholders fairly in the discharge of the following functions:

- (a) Define the company's vision, mission, values, strategy, goals, risk management policy, plans and objectives;
- (b) Approve its annual budgets and accounts;
- (c) Oversee the management and operations of the company, its major capital expenditures, acquisitions and divestitures and review corporate performance and strategies, including management accounts at least on a quarterly basis;
- (d) Identify corporate business opportunities as well as principal risks in its operating environment including the implementation of appropriate measures to manage such risks or anticipated changes impacting on the corporate business;
- (e) Select, compensate, monitor and when necessary replace key executives and oversee succession planning.
- (f) Review on a regular basis the adequacy and integrity of the company's internal control, accounting and financial reporting and management of information systems including compliance with applicable laws, regulations, rules and guidelines;
- (g) Establish and implement a system that provides necessary information to the shareholders including a shareholder communication policy for the company.
- (h) Monitor the effectiveness of the corporate governance practices under which it operates and proposing revisions as may be required.
- (i) Ensure a formal and transparent Board nomination and election process.
- (j) Monitor and manage potential conflicts of interest of management, Board members and shareholders, including misuse of corporate assets and abuse in related party transactions.
- (k) Take into consideration the interest of the company's stakeholders in its decision-making process.

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ARTICLE 9 BOARD CHARTER

In order to discharge its responsibilities, the Board shall prepare and write a charter that-

- (a) stipulates the functions in Article 7 above;
- (b) provides a corporate code of conduct that addresses conflict of interest relating to directors and management, which shall be regularly reviewed and updated as necessary;
- (c) Identifies key risk areas that require regular monitoring;
- (d) Stipulates a schedule of the matters reserved for its decision and the matters delegated to management
- (e) Identify Committees of the Board and stipulate their terms of reference.

ARTICLE 10 BOARD MEETINGS

1. The Board shall meet at least once in every three calendar months.
2. The Board shall, at the beginning of each financial year, prepare an annual schedule of meetings of the Board.

ARTICLE 11 BOARD BALANCE

The Board shall reflect a balance between independent, executive and non-executive Directors of diverse skills, gender and expertise.

ARTICLE 12 INDEPENDENT AND NON –EXECUTIVE DIRECTORS

1. The Independent and Non-Executive Directors shall form at least one-third of the membership of the Board.

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2. The Board shall determine whether the director is independent in character and judgment and whether there are relationships or circumstances which are likely to affect the director's judgment.
3. The Board shall state its reasons if it determines that a director is independent notwithstanding the existence of relationships or circumstances which may appear relevant to its determination and such disclosures will be made in the Annual Report.

ARTICLE 13

ROLE OF INDEPENDENT AND NON-EXECUTIVE DIRECTORS

Independent and non Executive Directors as members of a unitary Board shall;

- (a) constructively challenge and help develop proposals on strategy scrutinize the performance of management in meeting agreed goals and objectives and monitor the reporting of performance.
- (b) satisfy themselves on the integrity of financial information
- (c) satisfy themselves that financial controls and systems of risk management are robust and defensible.
- (d) be responsible for determining appropriate levels of remuneration of executive directors;
- (e) have a prime role in appointing, and where necessary removing, executive directors, and in succession planning.
- (f) develop proposals on long term strategy for the company; and
- (g) review all relevant Board papers to acquire a thorough understanding of the company's business and Management's performance;

ARTICLE 14

APPOINTMENT OF DIRECTORS

1. There shall be a formal and transparent procedure for the appointment of Directors to the Board and all persons offering themselves for appointment as Directors shall disclose any potential area of conflict that may undermine their position or service as Director.
2. A listed company shall not appoint a person to be a director unless that person is fit and proper to hold such a position.

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3. The listed company shall ensure that any person appointed as a Director undergoes Corporate Governance training within six months of appointment.

ARTICLE 15 RE –ELECTION OF DIRECTORS

1. All Directors shall be required to submit themselves for re-election at regular intervals or at least once every three years.
2. The names of directors submitted for election or re-election shall be accompanied by sufficient biographical details and any other relevant information to enable shareholders to take an informed decision on their election.

ARTICLE 16 TERMS FOR NON-EXECUTIVE DIRECTORS

1. Non-executive directors shall be appointed for specified terms subject to re-election and to the relevant companies laws relating to the appointment and removal of a director;
2. The chairperson shall confirm to shareholders when proposing re-election that, following formal performance evaluation, the individual's performance continues to be effective and to demonstrate commitment to the role;
3. Any term beyond six years for a non-executive director shall be subject to particularly rigorous review, and shall take into account the need for progressive refreshing of the Board;
4. Non-executive directors may serve longer than nine years, subject to annual re-election. Serving more than nine years could be relevant to the determination of a non-executive director's independence as set out in this Directive.

ARTICLE 17 TERMS FOR EXECUTIVE DIRECTORS

Executive Directors shall have a fixed service contract not exceeding five years with a provision to renew subject to regular performance appraisal.

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ARTICLE 18 STRUCTURE OF THE BOARD

The composition of the Board shall fairly reflect the company's shareholding structure and shall not be biased towards representation by a substantial shareholder. In addition, it shall contain an element of representation of the minority shareholders without undermining the collective responsibility of the Directors

ARTICLE 19 SIZE OF THE BOARD

1. The size of the Board shall not be too large to undermine an interactive discussion during Board meetings or too small such that the inclusion of a wider expertise and skills to improve the effectiveness of the Board is compromised;
2. When determining the number of directors to serve on the Board, the collective knowledge, skills, experience and resources required for conducting the business of the Board shall be considered;
3. When appointing directors of the Board, the following factors may be considered:
 - (a) Evolving circumstances, the needs of the company and the nature of its business;
 - (b) The need to achieve the appropriate mix of executive, non-executive and independent directors
 - (c) The need to have sufficient directors to structure Board committees appropriately.
 - (d) Potential difficulties of raising quorum with a small Board.

ARTICLE 20 INFORMATION TO THE BOARD

1. The chairperson is responsible for ensuring that the directors receive accurate, timely and clear information.
2. Management has an obligation to provide sufficient information to the Board. The Board may also seek further clarification from management where necessary.

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ARTICLE 21 ROLE OF COMPANY SECRETARY

1. Under the direction of the chairperson, the company secretary's responsibilities include:
 - (a) ensuring good information flows within the Board and its committees and between senior management and non-executive directors
 - (b) facilitating induction and assisting with professional development as required.
 - (c) advising the Board through the chairperson on all governance matters.
2. All directors shall have access to the advice and services of the company secretary, who is responsible to the Board for ensuring that Board procedures are complied with;
3. The appointment and removal of the company secretary shall be a matter for the Board as a whole.

ARTICLE 22 BOARD COMMUNICATION POLICY

The Board shall maintain an effective communication policy that enables both management and the Board to communicate effectively with its shareholders, stakeholders and the public in general.

ARTICLE 23 BOARD ASSESSMENT

1. The Board, through the Nominating Committee, shall undertake a formal annual evaluation of the effectiveness of the Board, Committees of the Board, as well as individual Directors;
2. Individual evaluation shall aim to show whether each director continues to contribute effectively and to demonstrate commitment to the role including commitment of time for Board and committee meetings and any other duties;
3. The chairperson shall act on the results of the performance evaluation by recognizing the strengths and addressing the weaknesses of the Board and where appropriate, propose new members be appointed to the Board or seek the resignation of directors;
4. The Board shall state in the annual report how performance evaluation of the Board, its committees and its individual directors has been conducted. The non-executive directors shall be responsible for performance evaluation of the chairperson, taking into account the views of executive directors.

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ARTICLE 24 INDUCTION OF NEW BOARD MEMBERS

1. All directors shall receive induction on joining the Board and shall regularly update and refresh their skills and knowledge.
2. The chairperson shall ensure that the directors continually update their skills and the knowledge and familiarity with the company required to fulfill their role both on the Board and on Board committees. The company shall provide the necessary resources for developing and updating its directors' knowledge and capabilities.

ARTICLE 25 LIMIT TO DIRECTORSHIPS

1. No person shall hold more than five Directorships in any listed company at any one time, in order to ensure effective participation on the Board.
2. Paragraph 1 shall not apply to the representatives of government who may hold more than five directorships by virtue of their office being the custodian of government shares in the public companies.

ARTICLE 26 RESIGNATION OF DIRECTORS

Resignation by a serving director shall be notified to the Competent Authority and disclosed in the Annual Report together with the details of the circumstances necessitating the resignation.

ARTICLE 27 BOARD COMMITTEES

1. The Board shall establish relevant committees and delegate specific mandates to such committees as may be necessary;
2. The Board of every listed company shall establish an audit committee, nominating committee and remuneration committee among other committees;
3. The mandate, composition and working procedures of these committees shall be well defined and disclosed by the Board.

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ARTICLE 28 THE NOMINATING COMMITTEE

1. The Board of every listed company shall appoint a Nominating Committee composed of majority non-executive Directors with the responsibility of proposing new nominees for the Board and for assessing the performance and effectiveness of Directors to perform their role in the company. The Nomination Committee shall make available its terms of reference, explaining its role and the authority delegated to it by the Board.
2. The chairperson or an independent non-executive director shall chair the committee, but the chairperson shall not chair the nomination committee when it is dealing with the appointment of a successor to the chairpersonship.
3. The Nominating Committee shall consider only persons of high caliber and credibility and who have the necessary skills and expertise to exercise independent judgment on issues that are necessary to promote the company's objectives and performance in its area of business.
4. The Nominating Committee shall also consider candidates for Directorship proposed by the Chief Executive and shareholders.
5. The Board, through the Nominating Committee, shall on an annual basis, review skills and expertise of the executive Directors as well as the independent and non-executive Directors and disclosures shall be made in the annual report.
6. The Nominating Committee shall recommend to the Board candidates for Directorship to be appointed by shareholders.
7. A separate section of the Annual Report shall describe the work of the Nomination Committee including the process it has used in relation to Board appointments. An explanation shall be given if neither external search consultancy nor open advertising has been used in the appointment of a chairperson or non-executive directors.

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ARTICLE 29

BOARD REMUNERATION AND THE REMUNERATION COMMITTEE

1. The Board of Directors of every listed company shall appoint a Remuneration Committee or assign a mandate to the Nominating Committee consisting mainly of independent and non-executive Directors to recommend to the Board the remuneration of the Board and the structure of their compensation package.
2. The remuneration committee shall make available its terms of reference, explaining its role and the authority delegated to it by the Board. Where remuneration consultants are appointed, a statement shall be made available of whether they have any other connection with the company.
3. The remuneration committee shall have delegated responsibility for setting remuneration for all executive directors and the chairperson, including pension rights and any compensation payments. The committee shall also recommend and monitor the level and structure of remuneration for senior management. The definition of 'senior Management' for this purpose shall be determined by the Board but shall normally include the first layer of management below Board level.
4. The remuneration committee shall consult the chairperson and/or chief executive about their proposals relating to the remuneration of other executive directors. The remuneration committee shall also be responsible for appointing any consultants in respect of executive director remuneration. Where executive directors or senior management are involved in advising or supporting the remuneration committee, care shall be taken to recognize and avoid conflicts of interest. The chairperson of the Board shall ensure that the company maintains contact as required with its principal shareholders about remuneration in the same way as for other matters.
5. Levels of remuneration shall be sufficient to attract, retain and motivate directors of the quality required to run the company successfully. The determination of the remuneration for non-executive Directors shall be a matter for the whole Board.
6. The remuneration of directors and the Chief executive shall be sufficient to attract, retain and motivate directors of the quality required to run the company successfully and shall include an element that is linked to corporate performance for example a share option scheme so as to ensure the maximization of shareholder value.

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ARTICLE 30

DISCLOSURE IN ANNUAL REPORT REGARDING REMUNERATION

Every Board shall disclose in its annual report, its policies for remuneration including incentives for the Board and senior management, particularly the following:

- (a) Quantum and component of remuneration for Directors including non-executive Directors on a consolidated basis in the following categories:
 - (i) Executive Directors fees;
 - (ii) Executive Directors emoluments;
 - (iii) Non-executive Directors' fees;
 - (iv) Non-executive Directors' emoluments.
- (b) Share options and other forms of executive compensation that have to be made or have been made during the course of the financial year; and,
- (c) Directors' loans.

PART II

THE POSITION OF CHAIRPERSON AND CHIEF EXECUTIVE

ARTICLE 31

SEPARATION OF ROLES

1. There shall be a separation of the role and responsibilities of the Chairperson and Chief Executive, which will ensure a balance of power of authority and provide for checks and balances such that no individual has unfettered powers of decision-making;
2. The chairperson shall on appointment meet the independence criteria set out in this Directive;
3. A chief executive shall not become chairperson of the same company.

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ARTICLE 32 INDEPENDENCE OF THE CHAIRPERSON

1. The Chairpersonship of a listed company shall be held by an independent Non-Executive Director.
2. The chairperson is responsible for the following;
 - (a) leadership of the Board;
 - (b) ensure that the Board is effective on all aspects of its role
 - (c) set the Board's agenda;
 - (d) ensure that the directors receive accurate, timely and clear information.
 - (e) ensure effective communication with shareholders;
 - (f) facilitate the effective contribution of Non-Executive Directors; and
 - (g) ensure constructive relations between the Executive and Non-Executive Directors.
3. The Chairperson shall not be a director in more than two listed companies.

ARTICLE 33 SUCCESSION PLANS

Every listed company shall have a clear succession plan for its Chairperson and Chief Executive in order to avoid unplanned and sudden departures, which could undermine the company and shareholder interest.

ARTICLE 34 RESPONSIBILITIES OF THE CHIEF EXECUTIVE

1. The Chief Executive shall be responsible for the following;
 - (a) implementing Board decisions; and
 - (b) ensuring that there is a clear flow of information between management and the Board in order to facilitate both quantitative and qualitative evaluation and appraisal of the company's performance.
2. The Chief Executive shall undertake a primary responsibility of organizing information necessary for the Board to deal with and for providing necessary information to the Directors on a timely basis.

PART IV
THE RIGHTS OF SHAREHOLDERS

ARTICLE 35
EQUITABLE TREATMENT OF SHAREHOLDERS

The Board of every listed company shall ensure equitable treatment of shareholders including the minority and foreign shareholders.

ARTICLE 36
INFORMATION TO SHAREHOLDERS

All shareholders shall receive relevant information on the company's performance through distribution of regular annual and interim reports and accounts.

ARTICLE 37
SHAREHOLDER PARTICIPATION IN DECISION MAKING

There shall be shareholder's participation in all major decisions of the company. The Board shall therefore provide the shareholders with information on matters that include but are not limited to amendments to memorandum and articles of association or similar governing documents of the company, authorization of additional shares, rights issues, share splits, bonus issues, major disposal of company assets, restructuring, takeovers, mergers, acquisitions or reorganizations.

ARTICLE 38
SECURITY OF OWNERSHIP AND TRANSFER

The shareholders shall receive a secure method of transfer and registration of ownership as well as a certificate or statement evidencing such ownership in the case of a central depository environment.

ARTICLE 39
SHAREHOLDER RIGHTS TO VOTE

Every shareholder shall have the right to participate and vote at all shareholders meetings including the election of Directors.

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ARTICLE 40 SHAREHOLDER'S RIGHTS TO INFORMATION

Every shareholder shall be entitled to ask questions or seek clarification on the company's performance as reflected in the annual reports and accounts or in any matter that may be relevant to the company's performance or promotion of shareholder's interest and to receive explanation by the Directors and /or management.

ARTICLE 41 SHAREHOLDER'S RIGHTS TO DIVIDENDS

Every shareholder shall be entitled to distributed profit in form of dividend and other rights including bonus shares, scrip dividends or rights issues as applicable and in the proportion of his shareholding in the company's share capital.

ARTICLE 42 HIGHLIGHTS IN ANNUAL REPORT

The annual report and accounts to shareholders must include highlights of the operations of the company, financial performance and a list of the ten major shareholders of the company and their shareholding.

ARTICLE 43 SHAREHOLDER DIALOGUE

1. Listed companies may organize regular investor briefings when the half-yearly and annual results are declared or as may be necessary to explain their performance;
2. Listed companies shall endeavor to establish a company website and encourage its use by shareholders to ease communication and interaction between shareholders and the company;
3. Every listed company shall cooperate with shareholders to promote dialogue and put in place internal mechanisms to ensure proper cooperation;

PART V

THE CONDUCT OF GENERAL MEETINGS

ARTICLE 44

MEETINGS

1. The Board of a listed company shall provide to all its shareholders sufficient and timely information concerning the date, location and agenda of the general meeting as well as full and timely information regarding issues to be decided during the general meetings.
2. The Board shall make shareholder's expenses and convenience primary criteria when selecting venue and location of annual general meetings.

ARTICLE 45

SAFEGUARDS FOR SHAREHOLDER'S RIGHTS

The Board of a listed company shall ensure that the shareholder's rights of full participation at general meetings are protected by:

- (a) Giving shareholders information in a simplified and generally understandable manner;
- (b) Giving shareholders sufficient information on voting rules and procedures;
- (c) The directors shall provide sufficient time for shareholders questions on matters pertaining to the Company's performance and seek to explain to the shareholders their concern;
- (d) Giving shareholders the opportunity to place items on the agenda at general meetings;
- (e) Giving shareholders the opportunity to vote in person or in absentia and equal effect shall be given to votes whether cast in person or in absentia; and
- (f) Giving shareholders the opportunity to consider the costs and benefits of their votes.

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ARTICLE 46 DUTY OF INSTITUTIONAL INVESTORS

Institutional investors may make direct contact with the company's senior management and Board members to discuss performance and corporate governance matters in addition to exercising their vote during annual general meetings.

ARTICLE 47 SHAREHOLDER'S OBLIGATIONS AT MEETINGS

Shareholders while exercising their right of participation and voting during the general meetings of their company shall not act in a disrespectful manner as such conduct may undermine company interest.

PART V ACCOUNTABILITY, RISK MANAGEMENT AND THE ROLE OF AUDIT COMMITTEES

ARTICLE 48 DISCLOSURE REGARDING COMPANY OPERATIONS

The Board shall present an objective and understandable assessment of the company's operating position and prospects.

ARTICLE 49 FINANCIAL STATEMENTS

The Board shall ensure that financial statements are presented in line with International Financial Reporting Standards.

ARTICLE 50 INTERNAL CONTROLS

The Board shall establish and monitor appropriate policies on internal controls and satisfy itself that the system is functioning effectively.

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ARTICLE 51

PERIODICAL REVIEW OF INTERNAL CONTROLS

1. Management shall be accountable to the Board for monitoring the system of internal controls and reporting on such monitoring activities;
2. The Board shall periodically review and enquire, based on the information and assurances provided to it by management, to determine the effectiveness of internal controls established by the management of the listed entity.
3. The Board shall document the results and conclusions of its periodic reviews and actions taken thereon.

ARTICLE 52

APPOINTMENT OF AUDITORS

1. The Board shall establish a formal and transparent arrangement for shareholders to effect the appointment of independent auditors at each annual general meeting;
2. The auditors' services shall not be retained for a period exceeding five consecutive years;
3. Upon completion of the above mentioned period of service, the auditor may only be reappointed after the expiration of three years.

ARTICLE 53

INTERACTION WITH AUDITORS

The Board shall establish a formal and transparent arrangement for maintaining a professional interaction with the company's auditors.

ARTICLE 54

AUDIT COMMITTEE

1. The Board shall establish an audit committee with a majority of independent and non-executive Directors, who shall report to the Board, with formal terms of reference addressing its authority and duties;
2. The Board shall satisfy itself that at least one member of the audit committee has recent and relevant financial experience;

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3. The Chairperson of the audit committee shall be an independent non-executive Director, and the Board shall disclose in the annual report, whether it has an audit committee and the mandate of that committee.

ARTICLE 55 ATTRIBUTES OF THE AUDIT COMMITTEE

Important attributes of the audit committee members shall include:

- (a) Broad business knowledge relevant to the company's business;
- (b) Keen awareness of the interests of the investing public;
- (c) Familiarity with basic accounting principles; and,
- (d) Objectivity in carrying out their mandate with no conflict of interest.

ARTICLE 56 RESPONSIBILITIES OF THE AUDIT COMMITTEE

The Audit Committee shall have adequate resources and authority to discharge their responsibilities and it shall

- (a) Be informed, vigilant and effective overseers of the financial reporting process and the internal controls of the company;
- (b) Review and make recommendations on management programs established to monitor compliance with the code of conduct;
- (c) Consider the appointment of the external auditor, the audit fee and any questions of resignation or dismissal of the external auditor;
- (d) Discuss with the external auditor before the audit commences, the nature and scope of the audit and ensure co-ordination where more than one audit firm is involved;
- (e) Review management's evaluation of factors related to the independence of the company's external auditor. Both the audit committee and management shall assist the external auditor in preserving its independence;
- (f) Review the quarterly, half-yearly and year-end financial statements of the company, focusing primarily on:
 - (i) Any changes in accounting policies and practices;

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- (ii) Significant adjustments arising from the audit;
 - (iii) The going concern assumption; and
 - (iv) Compliance with International Financial Reporting Standards and other legal and regulatory requirements.
- (g) Discuss problems and reservations arising from the interim and final audits, and any matter that the external auditor may wish to discuss (in the absence of management where necessary) review the effectiveness of the internal controls and other matters affecting the financial performance and financial reporting including information technology security and control;
- (h) Review the external auditor's letter(s) to the management and management's response;
- (i) Consider any related party transactions that may arise within the company group;
- (j) Consider the major findings of the internal investigations and management's response;
- (k) Have explicit authority to investigate any matter within its terms of reference, the resources that its needs to do so and full access to information;
- (l) Obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary; and
- (m) Consider other topics as defined by the Board including regular review of the capacity of the internal audit function.

ARTICLE 57

INTERNAL AUDIT FUNCTION

The Board shall establish an internal audit function.

ARTICLE 58

THE AUDIT COMMITTEE AND THE INTERNAL AUDIT FUNCTION

In relation to the internal audit function, the audit committee shall:

- (a) Review the adequacy, scope, functions and resources of the internal audit function and ensure that it has the necessary authority to carry out its work;
- (b) Review the internal audit program and results of the internal audit process and where necessary ensure that appropriate action is taken on the recommendations of the internal audit function;

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- (c) Review any appraisal or assessment of the performance of the members of the internal audit function;
- (d) Approve any appointment or termination of senior staff members of the internal audit function;
- (e) Ensure that the internal audit function is independent of the activities of the company and is performed with impartiality, proficiency and due professional care; and
- (f) Determine the effectiveness of the internal audit function;

ARTICLE 59

AUDIT COMMITTEE MEETINGS WITH EXTERNAL AUDITOR

The Audit Committee shall meet with the external auditors at least once a year, in the absence of executive Board members.

ARTICLE 60

RESPONSIBILITY FOR RISK MANAGEMENT

1. The Board shall appoint a risk management officer to-
 - (a) assist the Board in the discharge of its duties relating to corporate accountability and risk management, assurance and reporting;
 - (b) review and assess the integrity of the risk control systems and ensure that the risk policies and strategies are effectively managed;
 - (c) define the nature, role, responsibility and authority of the risk management function of the market intermediary;
 - (d) monitor external developments relating to the practice of corporate accountability and the reporting of associated risk, including emerging and prospective impact;
 - (e) provide independent and objective oversight and review of the information presented by management on corporate accountability and specifically associated risk, taking account of risk concerns raised by management at the audit committee meetings on financial, business and strategic risk; and
 - (f) obtain such external or other independent professional advice as he considers necessary to carry out his duties.

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ARTICLE 61 ANNUAL REVIEW

The Board shall, annually, review its risk management procedures and contingency plans, and document the results and conclusions of such reviews.

ARTICLE 62 INFORMATION MANAGEMENT SYSTEMS

The Board shall ensure the development and implementation of an information management system that provides information relating to its implementation, the effect of the Board's policies and procedures, the realisation of risks, substantial market positions and the financial position of the market intermediary.

ARTICLE 63 REPORTS TO THE BOARD

The Board shall amongst others consider risk assessment and risk management reports and annual corporate governance compliance reports

ARTICLE 64 BOARD RECORDS

The Board shall maintain a record of all the decisions of the Board and all actions taken to comply with the regulatory requirements of the Competent Authority.

ARTICLE 65 AMENDMENTS

1. This Directive may be amended by the Council of Ministers.
2. Any proposals for amendment may be submitted in writing by the Partner States to the Secretary General of the East African Community.

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ARTICLE 66 TRANSPOSITION

1. Partner States shall bring into force the laws, regulations and administrative provisions necessary to comply with this Directive not later than one year from the date of the Council of Ministers' approval. They shall forthwith inform the Council of Ministers thereof.
2. When Partner States adopt those measures they shall contain a reference to this Directive or shall be accompanied by such a reference on the occasion of their official publication. The methods for making such reference shall be laid down by Partner States.

ARTICLE 67 ENTRY INTO FORCE

This Directive shall enter into force upon approval by the Council.

ARTICLE 68 ADDRESSEES

*This Directive is addressed to the Partner States.
Done in Arusha, Tanzania*

SCHEDULE

DISCLOSURE OF CORPORATE GOVERNANCE ARRANGEMENTS

The Annual Report shall include information relating to compliance with this Directive. The specific requirements for disclosure are:

1. A statement of how the Board operates, including a statement of which types of decisions are to be taken by the Board and which are to be delegated to management.
2. The names of the chairperson, the chief executive, the chairmen and members of the nomination, audit and remuneration committees.
3. The number of meetings of the Board and those committees and individual attendance by directors.
4. The names of the non-executive directors whom the Board determines to be independent, with reasons where necessary.
5. How performance evaluation of the Board, its committees and its directors has been conducted.
6. A separate section describing the work of the nomination committee, including the process it has used in relation to Board appointments and an explanation if neither external search consultancy nor open advertising has been used in the appointment of a chairperson or a non-executive director.
7. A description of the work of the remuneration committee.
8. A statement from the directors that the business is a going concern, with supporting assumptions or qualifications as necessary.
9. A separate section describing the work of the audit committee in discharging its responsibilities.