

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF BOTSWANA HOUSING CORPORATION

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Botswana Housing Corporation ("the Corporation") set out on pages 9 to 66, which comprise the statement of financial position as at 31 March 2024, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of material accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of Botswana Housing Corporation as at 31 March 2024, and its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board and in the manner required by the Botswana Housing Corporation Act (CAP 74:03).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Corporation in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with other ethical requirements that are relevant to our audit of the financial statements in Botswana. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key Audit Matter	How the matter was addressed in the audit
<p>Net realisable value of housing inventories</p> <p>The Corporation's main operations comprise the construction and development of residential houses either to be held and leased as investment properties or sold upon completion.</p> <p>Inventory is measured at the lower of cost and net realizable value. The calculation of costs associated with the construction of housing units comprises a critical component in determining the value of housing inventories.</p>	<p>Our procedures included but were not limited to:</p> <ul style="list-style-type: none"> - We assessed the competency and objectivity of experts employed and engaged by the Corporation with reference to their professional qualifications and affiliations. These experts were involved in estimating the net realisable value of housing inventories and allocating costs between the respective housing inventory projects and investment properties. - We updated our understanding, evaluated the design, and tested the operating effectiveness of the internal

The cost of housing units includes direct construction costs, indirect costs and interest cost capitalised during the construction of the housing units.

Significant judgement is applied in the allocation of indirect costs to the respective projects, as the allocation involves different methods, calculations and measurements depending on the nature of the individual projects and the type of cost incurred.

The Corporation assessed internally the net realizable value of the inventory using the cost approach method. The net realizable value calculation is highly dependent on estimates like, amongst others, the anticipated final costs, plus the depreciated cost of the building and other improvements.

The cost-based approach requires certain assumptions, including taking for granted that there is enough available land for the buyer to build an identical property. Moreover, if comparable vacant land is not available, the value must be estimated, which makes the appraisal less accurate. The lack of similar building materials also reduces the accuracy of the appraisal and increases room for subjectivity. Furthermore, the method is subjective and prone to errors, as they rely on the appraiser's judgment and assumptions about the anticipated final costs and depreciation.

The matter was considered a Key Audit Matter due to significant effort and time spent on determining that the assumptions and inputs are appropriate and in assessing the different methods used by management in calculating and allocating the indirect and interest costs to the housing projects. This necessitated robust discussions with management.

The disclosures related to housing inventories are presented in Note 5 Accounting estimates and judgements, Note 16 Housing Inventories and Note 14 Finance Costs of the financial statements.

controls over the allocation of direct construction and indirect costs to the appropriate housing projects.

- We evaluated the operating effectiveness of internal controls over the allocation of construction and indirect costs between the respective housing inventory projects.
- We performed substantive test of detail procedures over contract costs, ensuring these costs meet the recognition criteria under IFRS and have been accurately allocated to the respective housing inventory projects.
- We assessed the net realisable value of housing inventories by inspecting and challenging internal specialist's reports prepared which detail the cost to completion of housing under construction, reviewed subsequent year-end proceeds on disposal of housing inventories and corroborate the estimated costs to complete projects by inspecting signed contracts, recent or actual costs incurred and costs incurred subsequent to the reporting date.
- We selected a sample of direct construction costs and inspected the supporting documents to assess whether these costs were accurately processed and allocated to the respective housing projects.
- We selected a sample of indirect costs and inspected the supporting calculations and documents to assess whether these costs were accurately calculated and allocated to the respective housing projects using appropriate allocation methods.
- We evaluated the judgements involved in selecting the method of calculating and allocating indirect costs to projects by:
 - Comparing the methods used to allocate indirect costs of housing inventories to the most recent historical or comparable projects completed by the Corporation;
 - Corroborating the estimated costs of complete projects to signed contracts, and recent or actual costs incurred; and
 - Assessing the consistency of indirect cost allocation methods in various locations by comparing to similar projects in various locations.
- We assessed the Corporation's ability, based on forecasted cash flow projections and budgets, to keep housing units for an extended period of time until the expected net realisable values on housing inventories are realised.
- We assessed the adequacy of the financial statement disclosures in accordance with International Financial Reporting Standards, in particular IAS 2 *Inventories* and IAS 23 *Borrowing Costs*.

Other Information

The directors are responsible for the other information. The other information comprises the information included in the 66-page document titled “Botswana Housing Corporation Annual Financial Statements for the year ended 31 March 2024” which includes the Directors’ Report and the Directors’ Responsibility Statement, which we obtained prior to the date of this report and the Annual Report, which is expected to be made available to us after that date. Other information does not include the financial statements and our auditor’s report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of the Directors for the Financial Statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Botswana Housing Corporation Act (CAP 74:03), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Corporation’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intends to liquidate the Corporation or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation’s financial reporting processes.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the Corporation's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other Legal and Regulatory Requirements

In accordance with Section 24 (4) of the Botswana Housing Corporation Act (CAP 74:03) ("the Act) as amended, we confirm:

- We have received all the information and explanations which, to the best of our knowledge and belief were necessary for the performance of our duties as auditors;
- The accounts and related records of the Corporation have been properly kept; and
- The Corporation has complied with all the financial provisions of the Act.



Ernst & Young
Firm of Certified Auditors
Practicing Member: Thomas Chitambo (CAP0011 2024)
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28 June 2024