

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

COUNCIL'S REPORT

4th Annual General Meeting, 16 September 2016

This report of Council, to the members of the Institute of Chartered Accountants in Malawi ('the Institute' or 'ICAM'), covers the major activities undertaken by the Institute since the last Annual General Meeting (AGM) in 2015.

1. The Economic environment

The country registered 3.1 % GDP growth in the year 2015 (2014: 5.7%). (Source: www.finance.gov.mw:2016-2017 Budget Statement). The poor economic performance was largely caused by decrease in agricultural production as a result of adverse weather conditions and floods at the beginning of the year 2015. Looking to the year 2016, there appears little prospects for improving economic performance because the country was hit by another natural disaster, drought, from the end of the year 2015 to the beginning of the year 2016 which has resulted in acute food shortage. The economic environment in the country remains tough with inflation persistently above 20%, June 2016: 22.6%, December 2015: 24.9% and December 2014: 24.2%. (source: www.rbm.mw).

2. ICAM Financial Performance for the year ended 31 December 2015

For the year ended 31 December 2015, the Institute reported an overall surplus of K91 million (2014: K83 million).

However, the Institute reported an operating deficit of K41 million (2014: deficit of K23) before investment income. The 2015 deficit arose mainly because of expenses relating to the ICAM Professional Qualification (PQ) examinations amounting to K60 million while revenue realized from students pursuing the PQ amounted to K18 million, netting off to an effective subsidy of K42 million (2014: Knil subsidy). The year 2015 was the first full year for the administration of examinations and culminated to full impact of the cost of the examinations.. The PQ subsidy is expected to decline gradually and eventually be phased out over a five year period. Notwithstanding the PQ subsidy, the Council envisages to eliminate the operational deficit altogether in the near future.

In approving the financial statements for the year ended 31 December 2015, the Council reviewed the adequacy of the special reserves in respect of staff loans, special project and learning materials. The staff revolving reserve and the special project reserve were revised upwards to K35 million (2014: K20 million) and K480 million (2014: K400 million) respectively in keeping with the inflation trends while the learning materials reserve was maintained at K70 million.

3. The ICAM Office Park Project

Council is pleased to inform members that works for the development of ICAM's piece of land situated along the Masauko Chipembere Highway in Blantyre have commenced, currently at the design stage. The Project involves erection of a 3 storey building of which 50% space would be used as ICAM offices while the other 50% space would be let out. Construction of the building has been planned to be in two phases; the 1st phase being to build the section to be used as ICAM offices and the second phase will be the construction of the space to be let out.

Technical services for the project comprising architects, quantity surveyors, structural engineers, mechanical and electrical Engineers were already procured. The architects for the works, namely **Space + Time** are also the leading consultants for all the technical services procured for the project.

The designs for the works are expected to be completed by December 2016 to enable commencement of the 1st phase of construction early in 2017. Construction of the 1st phase is expected to be completed within 18 months; by June 2018.

4. ICAM Membership

Council is pleased to report that, for the year to August 2016, membership of the Institute grew by 29.4% from 1,135 to 1,469 and have been analysed below by category:

Membership Category	2016		2015	
	Numbers	%age of total	Numbers	%age of total
Practicing Resident (PR)	57	3.9	53	4.7
Practicing Non Resident (PNR)	1	0.1	1	0.1
Non Practicing Resident (NPR)	750	51.0	711	62.6
Non Practicing Non Resident (NPNR)	34	2.3	41	3.6

Diplomate	627	42.7	329	29
Total	1,469	100	1,135	100

The 2016 membership growth of 29.4% (2015: 13%) is attributable to increasing compliance with the Public Accountants and Auditors Act (Act no 5 of 2013), which provides for compulsory registration of Chartered Accountants and Diplomate Accountants with Malawi Accountants Board through the Institute.

5. ICAM registered students

The number of ICAM's students as at 30 June 2016, with comparison to 30 June 2015, were as follows:

Students' category	As at 30 June 2016		As at 30 June 2015	
	Numbers	%age of total	Numbers	%age of total
Chartered Accountant (Malawi)	343	5.0	277	3.6
Accounting Technician Diploma	4,718	65.0	4,980	65.6
Certificate in Financial Accounting	2,182	30.0	2,335	30.8
Total	7,243	100	7,592	100

An increase in student numbers was recorded only at the Professional Level, the Chartered Accountant (Malawi). However, numbers declined at the Technician Diploma and Certificate in Financial Accounting levels which is partly attributed to the increased competition from the many private universities coming up on the market. In the current competitive environment, ICAM will continue stepping up efforts on its marketing campaigns to attract more students.

6. Students Bursary

In collaboration with the Institute of Chartered Accountants in England and Wales (ICAEW), ICAM is offering needs-based bursary to students. The first cohort of 10 students got the bursary in December 2015. In September 2016, an advertisement was made for the second cohort of 10 students. The bursary identifies talented and brilliant students. This program is one of the ways of the Institute, supported by its partners, contributing towards the country's social and economic development.

7. Ethics and Tackling Fraud and Corruption

On 30 May 2016, the Institute held an open forum discussion on the subject matter of: '*Tackling Theft, Fraud and Corruption in Malawi*'. The motivation for holding the discussion followed concerns on continued revelations of fraud, corruption and theft in the country. The revelations are very unfortunate considering that the country is still paying the high price of derailed progress on development as a result of past incidents of fraud, corruption and theft including the well documented 'Cashgate' - massive theft of public resources.

If unchecked these vices of fraud, corruption and theft will continue to undermine the country's progress of development. In that regard, this is a matter of significant public interest requiring all stakeholders in the development efforts of Malawi to collaborate on ideas and efforts to decisively deal with these vices. Three institutions: The Anti Corruption Bureau, the Malawi Accountants Board and ICAM officially participated at the forum.

The main achievement from the forum was that awareness was raised on the following issues: The cost of fraud, corruption and theft for the country; cross cutting issues which are breeding these vices of fraud, corruption and theft; measures currently in place for fighting these vices and their effectiveness; best practices which could be instituted to combat these vices. The Institute has also embarked on a number of activities aimed at strengthening education and awareness of ethics for the Institute's students and members.

The Institute is aware that fraud and corruption is one of the key challenges facing economies today and is a threat to sustainable development. As a partner on the country's development agenda, the Institute is committed to supporting students and members in strengthening their ethical behavior so that they can contribute to the fight against fraud and corruption, which is essential for the sustainable development of the nation.

8. Accounting and Auditing Standards

The following are the major activities of the Institute undertaken in the year, through the Accounting and Auditing Standards Committee

8.1 New Auditors Report

The New Auditor's Report which will be effective for audits of financial periods ending on or after 15 December 2016 has been described as the most fundamental change in Auditor's reporting in decades. The Institute continued preparing for effective implementation of the new auditor's report and in this regard the following related pronouncements were issued by the Institute on 8 February 2016: *Application Guidance on ISA 700 (revised), Forming an Opinion and Reporting on Financial Statements and Revised Application Guidance for IFRS for SMEs in Malawi.*

8.2 Consideration of IAS 29 *Financial Reporting in Hyperinflationary Economies*

In the context of the prevailing economic environment, the Institute continued to consider, IAS 29, *Financial Reporting in Hyperinflationary Economies*. The latest assessment, indicated that Malawi was not a hyperinflationary economy from an IFRS reporting point of view and as such the Kwacha is not a currency of a hyperinflationary economy, from that perspective. Again in the context of the current economic environment, this remains a subject matter of regular review by the Institute and members should expect regular advice on the same from the Institute.

8.3 Contributions to Standards setting

Throughout the year, the committee reviewed pronouncements and exposure drafts issued by the IASB and the IAASB and provided appropriate comments. The Institute is committed to ensuring that the International Standards, which have been adopted for use in Malawi, take into account relevant matters from our local context and will continue providing comments on exposure drafts of the IASB and IAASB.

8.4 Strengthening the effectiveness of the Accounting and Auditing Standards (AAS) Committee

With information from a study tour of the South African accountancy institutions, the AAS Committee has started a process of strengthening effectiveness of the Committee which includes reviewing the due process, coding as well as publicizing of the pronouncements of the Committee. The results of the process should become evident in the ensuing year. For three years in a row, 2012-2014, Republic of South Africa has been voted as number 1 in the world in terms of quality of accounting and auditing; and ICAM will leverage on this accreditation.

9. Taxation and Economic Issues

9.1 Pre-budget memorandum and Strengthening Public Financial Management

As it is customary, the Institute presented its 2016/2017 pre-budget memorandum to the Minister of Finance on 24 March 2016. One key point which was re-iterated by ICAM was the need to strengthen Public Finance Management. It was pleasing to note that in

the Minister's budget statement to the National Assembly in May 2016, there was detail on what the Government was doing to strengthen public financial management. Other efforts of the Institute towards strengthening public financial management have been through membership of the International Public Accounting Standards (IPSAS) Implementation Committee. Besides ICAM, other members of the Committee include: Treasury and the Accountant General Department and Malawi Accountants Board. Strong public financial management is necessary to support fiscal discipline. Analysts say that weak fiscal discipline has been a core driver of macroeconomic instability during the recent years.

We will continue collaborating with government in this critical area of strengthening public financial management, especially because of the relevance of our expertise.

9.2 New commercial laws

Through the Government notices No.16 and 17 of 22 July 2016, the Companies Act 2013 and the Insolvency Act 2016 were made effective from 20 May 2016. These new commercial laws have replaced the once very familiar Companies Act 1984. The Institute conducted a seminar focusing on the provisions of the Companies Act 2013 to enable its members to familiarize with the changes. For the Insolvency Act 2016, orientation of the changes was incorporated in the annual taxation update seminar. The Institute is committed to supporting its members on familiarization with legal developments

9.3 Update of the Institute's Taxation Booklet

The Taxation and Economic Issues Committee has updated the Institute's Taxation booklet incorporating Tax laws amendments up to 2016. The previous version of the booklet incorporate tax laws amendments up to 2013. We encourage members to utilize this valuable tax measures resource book.

10. Continuing Professional Development (CPD)

10.1 Regulation of CPD

From the year 2015 the Institute started requesting CPD returns from its members. Regulation of CPD is being strengthened and from now onwards, the requirement for CPD returns will be non negotiable requirement from every member of the Institute. The rate of compliance on submission of the CPD returns was 15%. Members are encouraged to ensure that they undertake CPD so that we are always a profession which is on edge and relevant. Members are also encouraged to submit their CPD returns, which is necessary for the country to demonstrate the quality of accountancy in Malawi and also a

requirement for Malawi's continued membership of International Federation of Accountants (IFAC).

10.2 CPD Activities

10.2.1 The Annual Lakeshore Conference and the Executive Retreat

The 2015 annual lakeshore conference at Sunbird Nkopola Lodge, from 17 to 19 September 2015 was held under the theme '*Transforming Economic Fortunes: Seizing Opportunities within and the Region*'. The conference was officially opened by the World Bank Country Manager, Laura Kullenberg. The conference attracted 548 participants (2014: 554 participants). A report on the conference proceedings was published in the ICAM magazine of the last quarter of 2015.

The 2015 Executive Retreat was held at the Makokola Retreat from 27-28 November 2015 while the 2016 Executive Retreat was held at Sunbird Nkopola from 22- 23 July 2016. The 2016 Executive Retreat attracted 32 participants (2015: 37 participants).

The annual lakeshore conference continues to be a rich CPD event as well as a thought leadership event with good patronage. The Executive Retreat also continues to be a highly rated training for senior leaders in both the private and public sectors.

10.2.2 Other CPD activities

Other CPD activities in the year 2015/ 2016 included IFRS update, Taxation update, Financial Modeling, Companies Act 2013. ICAM is committed to delivering tailored, rich and responsive CPD programs.

11. International and Public Relations (IPR)

Council is pleased to report three significant IPR activities which were carried out during the year: Continuation of the Hennox Mazengera Financial Reporting Awards, the 2016 annual dinner dance in Blantyre and donation of school desks

11.1 The Hennox Mazengera Financial Reporting Awards

In the year 2016 ICAM continued sponsoring the Hennox Mazengera Financial Reporting Awards. The awards were preceded by a media orientation workshop under the theme of the 2015 ICAM Lakeshore conference '*Opportunities for Transforming Economic Fortunes*'. Journalists were challenged to report on the subject matter.

We trust that these awards will continue to encourage journalists to take interest and develop skills in financial reporting and that together we can facilitate mobilization of

domestic and foreign investments which will in turn contribute to the creation of jobs and poverty reduction.

11.2 2016 Annual Dinner Dance

The 2016 annual dinner dance was held on 22 April 2016 at Sunbird Mount Soche Hotel with the theme ‘**Sustainable Development Goals – Partnering with Professionals**’.

The background to the theme is that at the UN General Assembly in September 2015, countries, including Malawi, adopted a set of Sustainable Development Goals (SDGs) to end poverty, protect the planet, and ensure prosperity for all. ICAM is aware that for the goals to be reached, everyone needs to do their part: Governments, the private sector, civil society and institutions like ICAM. For that reason, ICAM has been promoting the Sustainable Development Agenda within its sphere of influence

The guest of honor was Ms Mia Seppo, UN Resident Coordinator in Malawi. The event was very successful. The dinner dance continues to be a valuable event in matter of thought leadership for the Institute

11.3 Donation of desks worth K1.4 million to Chimbowe CDSS in Kasungu

In response to a request made by Honourable Madalitso Kazombo MP, who is also a member of the Institute, Council approved a donation of K1.4 million worth of desks to Chimbowe Community Day Secondary School (CDSS) in Kasungu. The donation was made as a part of the Institute’s corporate social responsibility.

12. Regional and International Networking

12.1 Membership of international bodies

ICAM continues to be a member of the International Federation of Accountants (IFAC), the Pan-African Federation of Accountants (PAFA), the International Association for Education Assessment (IAEA), the Association for Education Assessment in Africa (AEAA) and the Southern Africa Association for Education Assessment (SAAEA). The membership of these international organizations provides ICAM with the networks necessary for instituting and maintaining high standards of qualifications and services which are competitive globally. ICAM is committed to ensuring that the standards of accountancy qualifications and services in Malawi are based on best recognized benchmarks globally.

12.2 Representation on the PAFA Board

The President of ICAM continues to represent the Southern Africa sub-region on the board of the Pan African Federation of Accountants (PAFA), representing the following countries: Botswana, Lesotho, Malawi, Namibia, South Africa, Zambia and Zimbabwe. The tenure is for two years, May 2015 to May 2017.

13. Council and Technical Committees

As has been in the previous years, members' attendance of meetings of Council and Technical Committees was very good throughout the year. The dedication of the members of Council and Technical Committees enabled the Institute to deal with a lot of activities, of which the key activities have been presented in this report. Council would like to commend all members who served on Council and Technical Committees during the year 2015/2016 for the good work.

14. The Secretariat

The executive position of Director of Technical and Member Services has since been filled. Mr Charles Chimpeni took up the position on 1 October 2015. As a result, the Institute has a full executive team of Chief Executive Officer: Evelyn Mwapasa, Director of Learning and Professional Development: Mr Tifapi Jere and Director of Technical and Member Services: Mr Charles Chimpeni. As of 19 August 2016 full staff compliment at the Secretariat was 31 (2015: 23). The current staff capacity at the Secretariat will adequately support all programs for delivery of quality service to the students and the membership.