ICAM Magazine : January - March 2019

SIGNING OF MUTUAL RECGNITION AGREEMENT OF MOVEMENT OF PROFESSIONAL ACCOUNTANTS AND AUDITORS AT WORLD BANK OFFICES IN LUSAKA, ZAMBIA ON 28TH FEBRUARY 2019

ICAM THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

Contents

HIGHLIGHTS

IS YOUR BUSINESS Hemorrhaging From Complexity and Procrastination?

Moses Chavi FCCA, CIA, CRMA, CM

"Simple can be harder than complex: You have to work hard to get your thinking clean to make it simple. But it's worth it in the end because once you get there, you can move mountains."

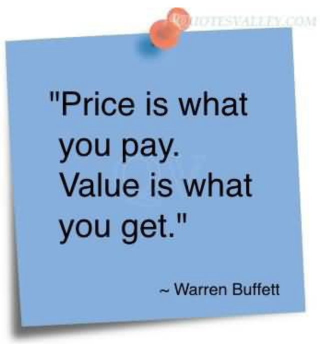
10

Moffat Ngalande is an Associate Director at PricewaterhouseCoopers responsible for the Lilongwe office, He provides assurance and advisory services and implementation of PwC's Lilongwe strategy.

41

By Emmanuel Chokani, CFA, FCCA

Determining the value of a private company and knowing what drives its value is a prerequisite to deciding the appropriate price to pay or receive in an acquisition, merger transaction etc.



45

Moffat Ngalande FCCA, CA (Mw), CGEIT, CISA, BAcc.

(The deepest sense of betrayal happens when it is done by those that are meant to be trusted. The pain one feels in such instances is deep and excruciating. If a thief steals in the night or a robber mugs you along the road you cannot expect anything less of him. But once a protector and a gatekeeper does the same the dismay is great and the shock is paralysing.


SOMETHING
DOESN'T
ADD UP..?
It's calling for a Forensic
www.fletcherandevance.com
Fletcher
&Evance
Beyond the Numbers

EDITORIAL

The largest wealth segment in the world is hidden. Here comes the truth, the hidden segment is the accountancy profession.

In the professional circles borders are cracking. Accountants can no longer feel confined to one environment. At last the Mutual Recognition Agreement (MRA) was signed in Zambia in February 2019. What an opportunity for members wishing to have an international experience. We have covered in totality all the articles contained in the MRA.

In this edition, an attempt has been taken to audit the auditing profession. No sector is immune to risks. Come to think about it, is there a possibility that audit could also have a dark side as to aid corruption and other vices? That cannot be ruled out. A practising auditor Moffat Ngalande examines that risk. Who audits the auditor! . On productivity and performance, our own export to the middle east Moses Chavi takes stock of our business operations and demonstrates how we are losing out as a result of inefficiencies that border on complexity and procrastination.

This should be exciting as it unmasks the veil of bad business practices. Just imagine, paying people that just procrastinate. How would that be reconciled on the balance sheet?

Adding more ingredients to the content in the magazine is Emmanuel Chokani. His exciting series of Price is what you pay, value is what you get, continues in this edition. Surely if you have missed the first series of articles, there is no harm going back to previous editions of the magazine to get abreast of issues. The article challenges the status quo, points into a relatively new road. In the words of Thomas Hardy, it points into the road not taken. Consider this analysis by Dag Detter – the largest wealth segment in the world is hidden. Here comes the truth, the hidden segment is the accountancy profession. Detter argues in this magazine that for economic growth, the world does absolutely need more and more accountants. Not just accountant by number, but by practice, conduct, ethical compliance among the many tenets that make the profession unique and reputable. You can hardly miss this article.

There is more that has been shared in this exciting edition. Take time to go through all the articles. The immense knowledge that lies hidden in the printed ink accords you an opportunity to earn unstructured CPD hours at your own pace. What a comfort!


The President
Bwighane Joel Mwenelupembe

PRESIDENT MESSAGE

Distinguished and eminent members of the great accountancy profession, it gives me great pleasure to interact with you through my maiden ICAM magazine column since you gave me the mantle of presidency. To begin with, it is such a great honour to me to be trusted with this responsibility and I made a promise to serve you as a servant. Allow me to accord great homage to Mr. Henry Chowawa, the immediate past president who passed the baton to me. At the end of the day, in this professional journey, we are all members of a relay race whereby you pass the baton to another person.

The profession said to good bye to the year 2018 with success stories and bruises as well. In general sense, the year was a complete mixed bag. On the positive side of the story, we engaged with the Chief Secretary to the government on the contentious appointment of the Auditor General and increasing the number of registered and qualified accountants in government. Our engagement with the members was very good, the bulletin has been a mouthpiece for the profession every two weeks. We can now all come to understand what our profession is doing week in week out.

Membership growth has been significant. We managed to beat the anticipated percentage increase by far. Coupled with the mandatory registration awareness exercises and our continued improvement in service delivery, we have seen many accountants coming forward to register. That does not mean that we rest on our laurels, we will endeavor at our level best to ensure that our members get good value for money. Their membership has to have attractive attributes that will make them distinctive in the environment.

The profession further engaged an extra gear in rooting out the cancer of unethical conduct among members of the profession. For the first time in too long a period of time, the profession was seen to have grown biting teeth. Four disciplinary cases were concluded during the year 2018. A few more cases are on the cards to be concluded by the time we are hosting the 2019 Annual General Meeting in September. Let me encourage all members to comply with the Code of Ethics for Professional Accountants to ensure that the highest level of integrity and ethical conduct is maintained for all professional accountants. It is members that give us the mandate to govern and we have to govern by the will of the members. Wonderful it is that at the 2018 AGM we received overwhelming recommendations. The Council is, with great delight, implementing the recommendations. The insights that you give us are the ones that take us closer to excellence and perfection, closer to the heights of superior service delivery, closer to achieving the objectives we all set. Please be assured that your Institute has a listening ear and will, with grace and honour, embrace any suggestion made in a bid to serve you better and improve the Institute.

Homage should also be paid to all technical committees. Their level of commitment was exceptional. Without their input in the affairs of the Institute, the Council would have been incapable to effectively implement programs and projects as per the dictates of the objectives of the Institute.

You will recall very well that on the onset I also lamented of some challenges we encountered. High above all has been the continuing declining numbers of students registering for our courses. This is a matter of great concern on two fronts. Firstly, the profession is at risk of failing to reach recommended numbers of professional and technical accountants that are required to spur economic growth. Secondly, the situation nosedives the finances of the Institute. I am however pleased to report that Council has put in places strategies meant to containing the dwindling students' numbers.

Of course it has not been all doom and gloom. While registrations at the certificate and diploma levels have been fairing badly, registrations at the professional level have been growing tremendously. All that this tells us is that ambitions of upcoming accountants are too big, they look forward to becoming chartered accountants. That gives us assurance that we are culturing a strong mass of highly competent and technically perfect future chartered accountants qualifying with their local professional body – ICAM.

Distinguished members, I will fail in my humble communication to you if I do not salute you for renewing your membership. Let me take the opportunity to remind you of some key elements that you are already acquainted with. Firstly, continuous professional development must be adhered to. The world is changing at supersonic speed and we cannot afford to remain behind in the knowledge of the past that is getting obsolete with time. Secondly, ethical conduct is the cradle of the Institute and its members. The image, identity and reputation of the Institute rests on your shoulders. Let us jealously keep on safeguarding the profession that we have built for years. Let us safeguard it for the sake of future generations. Let us safeguard it for the sake of the development of our beloved Malawi.

Having reached this far, let me appeal to you to take this magazine seriously. It is blended with high quality materials perfected by the best writers. It is the leading professional journal in the country and it is no surprise therefore that many students have used its materials for their thesis at Masters and Doctorate levels. Enjoy reading all the articles and consider contributing as well.

May God bless you and bless our mother Malawi.

Bwighane Joel Mwenelupembe


THE CEO

FROM THE CEO

Warm greetings from the Institute of Chartered Accountants in Malawi. Welcome to the first edition of the ICAM magazine for 2019.We have started the year 2019 on a high note. A year long list of events scheduled to take place was circulated to all members to aid their planning. We take cognizance of the fact that our members have great responsibilities hence the need to have important dates circulated to them upfront. Having done that, we still keep on sending reminders when the set dates for events are close by. We aim to enhance continued engagement in accordance with our Strategic Plan. This comes hot on the heels of low Continuing Professional Development (CPD) events patronage in the year 2018. Our analysis indicated that among the contributing factors to low turn out was the inability to send a comprehensive schedule of all CPD events to members in advance for their planning purposes. We have the optimism that this year, members will patronize CPD events in large numbers.

You will recall that last year we introduced a number of electronic systems. I have the pleasure to report that at the 2019 Annual General Meeting the process of voting council members into office will be done electronically. Your Institute cannot afford to remain behind when the power of electronic revolution can be capitalized on to improve systems for service delivery thus enhancing efficiency and credibility. Through the electronic process, we will have embarked on our desire of going green as there will be less paper work. Furthermore, the electronic voting system will shrink the time it takes to announce the results. Time is of great essence hence the need to utilize it effectively.

Turning a chapter to the students' side, I would like to inform you that the pass rates in the ICAM examinations are low and in particular at Level 2 where the pass rates are below 10%. In order to arrest this situation, ICAM and Institute of chartered Accountants in England and Wales (ICAEW) embarked on a project of improving pass rates at Level 2. One of the elements of the project involves a consultant lecturer offering on the spot guidance to the students and transferring knowledge and skills to the local tutors. The project commenced in February and will end in June 2019. It is anticipated that by the end of the project, our local tuition providers will have attained the required experience ad attributes needed to support students to excel. With this project in place, we are optimistic that we are getting closer to having the first locally trained and qualified chartered accountants in the June 2019 diet.

We are grateful to the Examinations Committee and the Council that are working hard to devise strategies that are meant to counter poor pass rates and the declining number of students.

You will recall distinguished members that last year we embarked on an ambitious Mandala Building Project. For those that have had the opportunity to drive past the building, they will agree that the building is taking good shape and is surely adding beauty to the City of Blantyre. All things being equal, completion of phase one of the project which constitutes office block for Secretariat will be completed by end of June 2019. Secretariat will therefore relocate to the new building after that completion. The project will still have phases two and three to be done though at present funds for such phases are yet to be secured.

In enhancing effectiveness and efficiency, the Council gave a policy direction to the Technical Committees for technical guidance on a number of issues. To that effect, Committees therefore have been very much focused at tasks at hand, have been vibrant and catalysts for the good performance of the Secretariat. Without the dedication and commitment of Technical Committees, management could hardly have the latitude to cover the ground covered at present.

Finally, this edition is stitched with wonderful technical, leadership and motivation articles that make a good buffet to nourish our technical competencies. Please take time to go through the magazine.

Furthermore, the electronic voting system will shrink the time it takes to announce results. Time is of great essence hence the need to utilize it effectively. Turning a chapter to the students' side, I would like to inform you that the pass rates in the ICAM examinations are low and in particular at Level 2 where the pass rates are below 10%. In order to arrest this situation, ICAM and ICAEW embarked on a project of improving pass rates at Level 2. One of the elements of the project involves a consultant lecturer offering on the spot guidance to the students and transferring knowledge and skills to the local tutors. The project commenced in February and will end in June 2019.

"*We are grateful to the Examinations Committee and the Council that are working hard to devise strategies that are meant to counter poor pass rates and the declining number of students.*"

IS YOUR BUSINESS HEMORRHAGING FROM COMPLEXITY & PROCRASTINATION?

IS YOUR BUSINESS HEMORRHAGING FROM COMPLEXITY & PROCRASTINATION?

A minimalist's perspective on how modern businesses are losing money through obvious inefficiencies
Moses Chavi FCCA, CIA, CRMA, CM

As defined by Joshua Becker, the bestselling Author of 'The More of Less' and an advocate of Minimalism, "Minimalism is intentionality. It is marked by clarity, purpose, and intentionality. At its core, minimalism is the intentional promotion of the things we most value and the removal of everything that distracts us from it. It is a life that forces intentionality".

There are various ways to identify complexity and inefficiencies in any business, and sometimes one of the best ways is simply through observation. To provide you a banking example: give yourself an assignment over the coming weekend and visit any banking hall, and sharpen your 'observation saw' to see how life happens on a normal business day. You can spread your eyes across the room, from bank employees to customers; or just focus on one Bank Teller (recommended). Be observant especially on how long it takes the Bank Teller to serve each customer, and how many human interactions and sign-offs occur to serve one customer. Also, be observant on how many times the same customer comes back on that window to clear 'some-things' before they get their withdrawal. If your brains are serving you well, a 2-hour observation window will grant you a full A4 Page of some of the best insights on how the Bank leadership can innovate their way into efficient customer services. Nevertheless, don't worry if your suggestions are not taken on board – it's life as usual.

The finest accountants on the land know that numbers talk; and similarly, concerned business leaders and owners also know that their accounting systems are huge repositories of future ideas. Financial statements are only the end result of what every person existing in the business has been doing for the past fiscal year; hence, concentrated efforts to drill down into the treasures of your financial statements can reveal unsearchable insights that can transform your business, from a mediocre piece of existence to an industry titan.

> *"Simple can be harder than complex: You have to work hard to get your thinking clean to make it simple. But it's worth it in the end because once you get there, you can move mountains." - **Steve Jobs***

If your financial statements are not talking to you, maybe you are not listening enough. Except for rare seasonal waves, for example when a business is introducing or changing an Enterprise Resource System (ERP), or when there is a significant change in the Board or senior leadership, many businesses rarely notice how existing practices have become redundant. Unsurprisingly, some of the best ideas are not timely adopted due to a mere desire for comfort, complacence, or procrastination. Employees are happy with the status quo, and the management is wary of increasing costs and business impact; however, a stagnant culture at the top, usually leads to stagnation at all levels. Until management decides to take a step back from the business, and to have an eagle's eye view on overall business processes (and revisiting the organization's vision & mission – the 'why' of existence), the business may subtly continue losing money to the detriment of the future goals.

Procrastination is mostly defined as a delay; but one of the most interesting definitions is spotted from the American Heritage Dictionary, which defines procrastination as "to put off doing something, especially out of habitual carelessness or laziness". Whilst the Merriam-Webster Collegiate Dictionary states "to put off intentionally the doing of something that should be done." The last definition is on another level as it evokes the common spirit of the human nature.
It should be every management's goal to develop a culture that endeavors to eliminate procrastination from all processes. An employee's act of delaying a whole process due to a mere stamp (especially if they are specialized in this task) should not be tolerated, unless where justified by means of document inadequacies and authority issues. The business' superordinate goals should surely take precedence over personal goals, ambitions, and laziness.

This publication endeavors to highlight some of the business insights that can help our organizations to thrive using the minimalist concept, and sanitizing outdated procedures for the sake of customer-relevance, focus, harmony, employee satisfaction, and effectiveness & efficiency.

a stagnant culture at the top, usually leads to stagnation at all levels.

Why do we exist?

Whether as an individual, or as a business, it is very critical for us to understand the 'why' of our existence. It is in fact a very commendable approach to adopt a periodic ritual where we just sit and reflect on the original statements of intent. Jeff Bezos and the Amazon Team have established the mantra of "Day 1" which means that Amazon will always act like a startup. To act like a startup, Bezos requires Amazon employees to do these four things:

- Be obsessed with the customer
- Focus on results over process
- Make high quality decisions quickly
- Embrace external trends quickly

This means that even as our organizations mature and go through that usual spiral of inertia (hopefully not plummeting), it is crucial to watch for any deviations which could be taking you away from your "Day 1" purpose.

What does our business or brand stand for?

It is no longer a secret that businesses are hugely affected by external perception, apart from the many good internal initiatives, people, systems and processes. Good brands are worth more than your bottom line, and failure to enhance what you stand for may have dire consequences on the entire future of the business. I know you have heard of frequent flyers who literally shun an airline due to one bad meal experience. Unfortunately the message that goes out to the public sounds like this: "that airline serves bad food". The brand strangled by a man's quest for a sumptuous meal.

"that airline serves bad food".

If the company's main concern is quality, or speed, the existing processes should continually be screened for what I call the 'unwanted opposites'.

Who are our key stakeholders?

The stakeholder conversation is always on top of management meetings' agenda; however, whether any suggestions and insights really get adopted is a discussion for another sunny day. For decades, shareholders have been the main focus of business leaders – to maximize their shareholder value. As much as this focus remains strong and true in today's business, global developments in technology and customers' access to information have disrupted this notion of merely living for the shareholders. If one of your business objectives is to 'be in the money', customers should have a special place on your agenda.

This notion is true: if you frustrate your customers, you don't have a market; and if you don't have a market, forget about maximizing your shareholder value. In all major business decisions, think of generational growth over and above temporary appeasement of shareholders and investors. There are many global case studies where the power of technology in driving 'customer demand' was ignored, and the titans that were, have become or are slowly becoming history. A good example is 'Toys R Us' (established in 1948) which, apart from mounting investor obligations, overlooked the power of e-commerce in serving customers, and after years of struggles, Toys R Us filed for bankruptcy protection in late 2017. In March of 2018, the company began its liquidation sales across their stores.
The customers may not always be kings, but their quest for quality, affordability and speed should never be ignored.

Are we achieving our business objectives?

Within the quest for splendor and significance, businesses should always set-aside some time to recalibrate and assess whether the core objectives of the business are being met. This ritual is better and effective if conducted at least once a year. In case of bleak and unattractive outcomes, management should facilitate targeted root-case analyses to timely ascertain why set objectives are not being met. And, in case of positive outcomes, the commendable behaviors propelling the business should be promoted.

Are we making money enough?

Unless if you are a promising capital intensive start-up, if you are not making money, you may not be in business after all. Many businesses celebrate

COMMON WAYS TO SIMPLIFY EXISTING PROCESSES (AND SAVE COSTS IN THE PROCESS)

Throughout my modest professional experience, I have observed and learnt that, in most cases, people print massive copies of presentations and reports they will never use (in their entire lifetime). If you know that you have a faint heart for 'green regrets', avoid printing unnecessary reports at all costs. Save paper, go green, and save the environment.

Sustaining the minimalist mentality

Being a minimalist is a choice; it is likened to choosing life & progress over death & stagnation. By learning to lead a simple way of life, whether as an individual or an entire business, there are noticeable savings on cost, better management of your time, healthy conversations within the teams, excellent customer relationships, rare stressful situations across the board, and better management of overall resources. The minimalist mentality not only enhances performance, it also reduces clutter, and creates massive clarity and thinking space for what really matters. Are you ready to become a minimalist?

The Author is an Internal Audit & Risk Management Practitioner, and a Cultural Change Advocate.

NICO
REIGNITES THE CAPITAL MARKET

NICO REIGNITES THE CAPITAL MARKET

Director of ICON Properties and Group Managing Director of NICO, Mr Vizenge Kumwenda (right) cuts the ribbon assisted by the Chairman of Malawi Stock Exchange, Dr Winston Masanja

NICO Holdings has achieved a new milestone in the listing of ICON Properties Plc on 21 January 2019. The listing of ICON comes after ten years of drought on the Malawi capital market. NICO has once again shown its muscle as a leader in financial services, having been the first company to list on the Malawi Stock Exchange in 1996. NICO companies now make up 29% percent of the entities listed on the MSE which include NICO Holdings, NBS Bank, Blantyre Hotels and the newly listed ICON Properties.

ICON Properties was born as a result of the restructuring of property companies in the NICO Group portfolio as well as through a collaborative process with other investors in Malawi who had investments in properties.

The company was formed with the objective of owning, leasing, managing and developing commercial, industrial and retail properties. Icon's properties are located in major economic centers in Malawi and include landmark shopping malls, prime office buildings and key industrial sites. These properties have tenants comprising market leaders in banking and finance, international development institutions, United Nations organisations, local blue-chip companies and high-end food and fashion retailers. The Company's

mission is to be at the forefront of successful, quality property investments and developments in Malawi and to provide maximum returns for all stakeholders.

This listing milestone means many things to the Malawian capital market, and possibly the entire economy of Malawi and NICO is proud to be at the heart of it all.

NICO's interests go beyond changing the land-scape of the country and the capital market. It richly touches and improves the individual life of Malawians by providing a range of financial services solutions through its life insurance, general insurance, banking, asset management, pension administration and property develop-ment and management portfolio. This focus on identifying opportunities that will positively impact growth of the Malawian economy and improve the quality of life for Malawians from all walks of life, will continue to underpin NICO's growth and investment strategies in the future.

"NICO's interests go beyond changing the landscape of the country and the capital market."

Ringing of Bell

MPICO Plc RECEIVES INTERNATIONAL AWARD FOR BEST FULL PROPERTY SERVICES

MPICO Plc RECEIVES INTERNATIONAL AWARD FOR BEST FULL PROPERTY SERVICES

MPICO Plc was honored with a Capital Finance International (CFI.co) 2018 award for the Best Full Property Services (Malawi). Capital Finance International, CFI.co. is a United Kingdom based print journal and online resource reporting on business, economics and finance.

Capital Finance International 's judging panel recognizes MPICO Plc as a key player that has been driving Malawi's private property development, and contributing to the national economy as it engages in the development, rental and management of commercial , residential and industrial properties. In their judges' report, CFI.co. Observed that MPICO Plc's portfolio shows the company's keen interest in shopping malls, office complexes, and hospitality spaces. Furthermore, MPICO Plc has a customer base of around 300 tenants, including government bodies, non-governmental organizations (NGOs), and corporate clients.

CFI.co acknowledges MPICO's excellent track record which spans back to 1972 when the company was established to facilitate private funding to develop the country's Infrastructure and in a bid to broaden its ownership base and access capital markets, MPICO issued an IPO in 2007 which was a distinct advantage for raising finance in the future.

CFI.co's judging panel also highlighted MPICO Plc's history of strong corporate citizenship evidenced by its initiatives including funding hospitals and collaborating with disaster-relief organizations and contributing to sports development through netball sponsorship.

MPICO's 28 - property portfolio valued at more than 47 Million Dollars and its excellent track record has earned the company the 2018 award for the Best Full Property Services (Malawi).

MPICO PLC CONTRIBUTES TOWARDS ENVIRONMENTAL CONSERVATION BY PLANTING 7,000 TREES IN NTCHISI

MPICO Plc CONTRIBUTES TOWARDS ENVIRONMENTAL CONSERVATION BY PLANTING 7,000 TREES IN NTCHISI

MPICO Plc is engaging in a Corporate Social Investment project towards Environmental Conservation in Malomo, Kasungu where the Company planted 7,000 trees in January 2019. Deforestation in Africa is one of the greatest issues facing Malawians today. The effects of deforestation are very tangible in our country as we experience less rain, hotter climates, soil erosion and drought which brings famine, starvation hence poverty. Tree planting is a direct solution to fighting deforestation. The tree planting initiative is MPICO Plc's response to Government's appeal to stakeholders' involvement towards environmental conservation.

The tree planting exercise took place on the 26Th of January, 2019 in the area of Traditional Authority (T/A) Chilooko, Malomo, Kasungu. One of the sites where trees were planted is Mbomba Secondary School with a focus of fruit trees for Students to enjoy in the near future. The theme for this project is 'it's our collective responsibility to ensure environmental conservation' translated in Chichewa as '"Ndi Udindo Wa Tonse Kusamala za Chilengedwe" which was derived from the Forestry's 2019 Theme; Conserve Forests: Secure Water, Food & Environment.

In implementing this long term project, MPICO Plc is using a Comprehensive approach where all stakeholders are involved. In that regard, the community leaders and community members have been empowered. The Forestry Department who are providing the technical expertise are also on board. Further, the Youth through 'Friends of Malomo', a Youth initiative we have collaborated with on the project are on the fore front of taking ownership as community members and channelling their efforts towards environmental conservation.

The funds that went into the first phase of the project which mainly involved tree planting was MK 5 Million Kwacha. MPICO Plc is proud to complement Government's efforts towards environmental conservation through this Corporate Social Investment Project.

MPICO

MPICO Plc's SPORTS INITIATIVE; THE 2018 35 MILLION KWACHA GATEWAY CENTRAL REGION NETBALL TOURNAMENT

MPICO Plc's SPORTS INITIATIVE;

THE 2018 35 MILLION KWACHA GATEWAY CENTRAL REGION NETBALL TOURNAMENT

The Central Region Netball Tournament is MPICO's Corporate Social Investment towards sports development in Malawi which has run for three years in a row since its inception in 2016. MPICO Plc sees the netball sport as an opportunity `to invest and promote young women as part of creating an enabling environment for them to thrive

Through The Gateway Central Region Netball initiative, players have made strides as there is a big improvement of play level in the girls who have participated. Through our initiative, players have been scouted and some are playing for big teams including international teams. Furthermore others have greatly improved their skills through this initiative which has paved way for them to qualify for the under 20 National Team while others have found job opportunities through the same.

Blue Eagles are the reigning champions of The Gateway Central Region Netball Tournament, a title they have retained for two years in a row while CIVO nets came in second place.

Blue Eagles players, reigning champions

Former Sports Minister, Kasaila presents trophy to the Blue Eagles Captain

ACCELERATED PROGRAMME FOR ECONOMIC INTEGRATION

MUTUAL RECOGNITION AGREEMENT BETWEEN THE COMPETENT AUTHORITIES OF PROFESSIONAL ACCOUNTANTS AND AUDITORS

Signed in
Lusaka, Zambia
on 28th February, 2019

ARRANGEMENT OF ARTICLES

ARTICLE	TITLE
ARTICLE 1	DEFINITIONS
ARTICLE 2	PURPOSE
ARTICLE 3	SCOPE OF AGREEMENT
ARTICLE 4	OBJECTIVES
ARTICLE 5	RECOGNITION OF PROFESSIONAL ACCOUNTANTS AND AUDITORS
ARTICLE 6	NATIONAL TREATMENT
ARTICLE 7	PROCESSING TIMES
ARTICLE 8	TRANSPARENCY
ARTICLE 9	IMPROVING STANDARDS
ARTICLE 10	COMMON FRAMEWORKS
ARTICLE 11	CODE OF CONDUCT AND DISCIPLINARY PROCESSES
ARTICLE 12	MEMBERSHIP OF PROFESSIONAL ACCOUNTANCY ORGANIZATIONS
ARTICLE 13	IMPLEMENTATION MECHANISMS
ARTICLE 14	SETTLEMENT OF DISPUTES
ARTICLE 15	AMENDMENTS
ARTICLE 16	ACCESSION
ARTICLE 17	WITHDRAWAL
ARTICLE 18	ENTRY INTO FORCE

In this Agreement:

"APEI" means Accelerated Programme for Economic Integration;

"Accountancy" means the theory and practice of the science of accounting, or the profession or business of a Professional Accountant or Auditor. The field of accountancy includes the study and practice of accounting, auditing, finance, financial management and/or tax;

"Assessment or Evaluation" means a process for reporting or comparison of achievement against criteria, standards, or benchmarks;

"Audit" means the independent examination of financial statements in accordance with international standards on auditing, whose purpose is to express an opinion on whether financial statements are prepared in all material respects in accordance with the financial reporting framework prescribed in the APEI Country in which the entity is registered, and "auditing" shall be construed accordingly;

"Auditor" means the person responsible for issuing an audit report;

"Certification" means the issuance of a certificate or licence to an individual who has met specified requirements for practice;

"Code of ethics" means the International Code of Ethics for Professional Accountants issued by IFAC and the code of ethics promulgated in the relevant APEI country;

"Competent Authority" means a statutorily established body, or, in absence of which, any institution designated by an APEI Country to carry out the functions required by this Agreement;

"IFAC" means the International Federation of Accountants;
"Qualification" means the professional designation in accountancy or auditing attained by an individual;
"Licence" means an authorization issued by the Competent Authority in an APEI Country enabling an individual to practice as a Professional Accountant or Auditor;

"Professional Accountancy Organization" means an IFAC membership body comprised of individual professional accountant or auditors;

"Professional Accountant" means an individual who achieves, demonstrates and further develops professional competence to perform a role in the accountancy profession and who is required to comply with a code of ethics as directed by a professional accountancy organization or a licensing authority;

"Professional Misconduct" means either:
(i) conduct which contravenes the provision of the relevant statute governing the profession in the Receiving State;
(ii) the unlawful disclosure or use to a Professional Accountant's or Auditor's advantage of any client information;
(iii) dishonest, fraudulent or deceitful conduct;
(iv) the conviction of a criminal under any law;
(v) conduct that is prejudicial to the accountancy profession or is likely to bring it into disrepute; or
(vi) the breach or encouragement to breach by another member of the relevant code of ethics or accounting or auditing pronouncements;

"Receiving APEI Country" means the APEI Country where the Professional Accountant or Auditor seeks to acquire a licence;

"Recognition" means the process by which a Receiving APEI Country accepts the licence issued by Competent Authority of a Sending APEI Country and issues a practicing certificate;

"Register" means the record of Professional Accountants or Auditors kept by the Competent Authority in an APEI Country according to the law of that APEI Country;

"Registrar" means the Council, Board or Secretary of the Competent Authority in an APEI Country responsible for the Register;

"Registration" means the process of recording in a Register and issuance of a registration certificate; and "Sending APEI Country" means the APEI Country where the Professional Accountant or Auditor last acquired a practicing licence.

ARTICLE 2
PURPOSE

The purpose of this Agreement is to:

(i) facilitate the movement of Professional Accountants and Auditors among the APEI Countries as provided for in this Agreement;

(ii) establish mutual recognition of Professional Accountants' and Auditors' qualifications; and

(iii) encourage the adoption of high standards of practice and commitment to professional development in the accountancy profession in APEI Countries.

ARTICLE 3
SCOPE OF AGREEMENT

This Agreement shall apply to professional accountants and auditors who are nationals or permanent residents of an APEI Country.

ARTICLE 4
OBJECTIVES

The objectives of this Agreement are to:

(i) facilitate mobility of Professional Accountants and Auditors through the portability of qualifications to enable the realisation of commitments made by APEI Countries for the movement of business persons and professionals;

(ii) Encourage and support the improvement of standards of education and training, and provide advice on professional development in the accountancy prof ession in the APEI Countries; and

(iii) Facilitate the exchange of information in order to promote adoption of best practices on standards of accountancy education professional qualifications and professional practice.

ARTICLE 5
RECOGNITION OF PROFESSIONAL ACCOUNTANTS AND AUDITORS

1. A person shall be recognized and registered as a Professional Accountant by the Competent Authority of a Receiving APEI Country if that person:

(i) is a national or a permanent resident of an APEI Country;

(ii) possesses a valid registration as a Professional Accountant issued by an IFAC member body in the Sending APEI Country;

(iii) is a member in good standing of the Professional Accountancy Organization in the Sending APEI Country;

(iv) until such time as the development of Common Frameworks under Article 10, passes examinations in company law and taxation as may be required by the Receiving APEI Country;

(v) pays the prescribed fee and meets the language requirement in the Receiving APEI Country; and

(vi) has no record of conviction for any criminal offence of an economic, financial or fiscal nature in the Sending APEI Country.

2. A person shall be recognized and registered as an Auditor by the Competent Authority of a Receiving APEI Country if that person:

(i) is a national or permanent resident of an APEI Country;

(ii) possesses a valid professional licence as an Auditor issued by a Competent Authority in the Sending APEI Country;
(iii) is a member in good standing of the Professional Accountancy Organization in the Sending APEI Country;

(iv) until such time as the development of Common Frameworks under Article 10, passes examinations in company law, taxation and/or a competence practice examination, as may be required by the Receiving APEI Country, and has audit experience for a period of no less than 7 years;

(v) pays the prescribed fee and meets the language requirement in the Receiving APEI Country; and

(vi) has no record of conviction for any criminal offence of an economic, financial or fiscal nature in the Sending APEI Country.

ARTICLE 6
NATIONAL TREATMENT

1. A Professional Accountant or Auditor, who has been recognized under Article 5, shall practice in accordance with the domestic laws and regulations of the Receiving APEI Country.

2. A Professional Accountant or Auditor, who has been recognized under Article 5, shall enjoy the same rights, duties and obligations as a Professional Accountant or Auditor as appropriate in the Receiving APEI Country.

3. Fees, charges and examination requirements set by Competent Authorities shall be transparent and shall not discriminate on the basis of nationality.

ARTICLE 7
PROCESSING TIMES

1. Upon receipt of an application, a Competent Authority shall determine whether the application is complete. If an application is incomplete, the applicant shall be notified immediately and shall be given the opportunity to submit another application.

2. A Competent Authority in a Receiving APEI Country shall verify, if it deems necessary, from the Competent Authority of the

Sending APEI Country that the applicant is in good standing with that Competent Authority.

3. A Competent Authority from which the information in sub-article 2 above is requested, shall provide such verification within 5 working days from receipt of the request.

4. Upon receipt of a complete application, the Competent Authority shall make a decision within 20 working days.

5. When a decision is made by the Competent Authority, the applicant shall be notified of the decision within 5 working days of the decision.

6. The Competent Authority shall register an applicant and issue the licence within 5 working days from the date of the decision to register the applicant.

7. Where an application for a licence is rejected, the Competent Authority shall, within 5 working days from the date of the decision, notify the applicant of the decision rejecting the application and the reasons therefor.

ARTICLE 8
TRANSPARENCY

1. Competent Authorities shall make available on a website, a list of all the documentation required to be submitted with an application, for the application to be considered complete.

2. Competent Authorities shall develop a common website for the sharing of information and the submission of applications for recognition under this Agreement.

ARTICLE 9
IMPROVING STANDARDS

1. Competent Authorities shall encourage that accounting and auditing instructions within their jurisdiction meet the International Education Standards issued by IFAC.

2. Competent Authorities shall oversee the quality and competence of Professional Accountants and Auditors through appropriate licensing or registration, and prescribing minimum standards for initial and continuing education, and for professional conduct.

ARTICLE 10
COMMON FRAMEWORKS

1. Competent Authorities shall develop, within 5 years after the entry into force of this Agreement, common examinations for the admission of Professional Accountants and Auditors in the APEI Countries.

2. Common examinations may be subject to a uniform fee.

3. Competent Authorities shall develop, within 5 years after the entry into force of this Agreement, procedures for undertaking joint audit quality reviews.

Competent Authorities shall ensure that Professional Accountants and Auditors in the APEI Countries are required to undertake at least 120 hours of continuing professional development in a 3 year period.

ARTICLE 11
CODE OF CONDUCT AND DISCIPLINARY PROCESSES

1. Competent Authorities shall comply with the Code of Ethics.

2. In the event of alleged Professional Misconduct arising out of a Professional Accountant's or Auditor's work in a Receiving APEI Country, the Competent Authority of the Receiving APEI Country shall assume responsibility for the conduct of disciplinary proceedings against the Professional Accountant or Auditor.

3. Where a Competent Authority of the Receiving APEI Country investigates the conduct of, or takes disciplinary proceedings against, a Professional Accountant or Auditor, all Competent Authorities in APEI Countries where the Professional Accountant or Auditor is licenced shall cooperate with the investigation or disciplinary proceedings by providing all relevant information and documentation on the membership status of the Professional Accountant or Auditor being investigated.

4. Where a Competent Authority in a Receiving APEI Country initiates disciplinary proceedings against a Professional Accountant or Auditor under this Article, it shall assume full responsibility for the conduct of the proceedings and, subject to any agreement between or among the Competent Authorities, for the cost of such proceedings.

5. In any proceeding under this Article, a duly certified copy of the disciplinary decision rendered by a Competent Authority in a Receiving APEI Country against a Professional Accountant or Auditor found guilty of Professional Misconduct is proof of that individual's guilt in the Receiving APEI Country.

6. A Competent Authority in a Receiving APEI Country that finds a Professional Accountant or Auditor guilty of Professional Misconduct shall, within 5 working days of taking steps to enforce a disciplinary sanction as a result of that finding, notify the Competent Authorities of other APEI Countries of the action taken; provided that a Competent Authority so notified may not be required to take steps to enforce such disciplinary sanction where such sanction is under appeal.

7. The Competent Authorities in which the Professional Accountant or Auditor is a member shall, within 5 working days from receipt of the notification,

take steps to enforce the disciplinary sanction.

8. A Competent Authority of a Receiving APEI Country shall provide a procedure for appeal of any disciplinary action, in its procedures.

ARTICLE 12
MEMBERSHIP OF PROFESSIONAL ACCOUNTANCY ORGANIZATIONS

A Professional Accountant or Auditor who has been recognized under Article 5 shall be eligible for membership of the Professional Accountancy Organization in the Receiving APEI Country.

ARTICLE 13
IMPLEMENTATION MECHANISMS

1. The APEI Professional Accountants and Auditors Committee (hereinafter referred to as the "APAAC") is hereby established.

2. Membership of the APAAC shall comprise of three members from each jurisdiction; being two representatives from the Competent Authorities and a representative from the policy Ministry.

3. The APAAC shall be led by a Chairperson, who shall be appointed by the committee at their first meeting.

4. The APAAC shall determine its own procedure including that of appointing sub-committees, convening its meetings and the conduct of business.

5. The APAAC shall have power to co-opt from time to time any person as a member of the committee as it may deem necessary.

6. The function of the APAAC shall be to oversee the implementation of this Agreement, including:

i. monitoring and reviewing the implementation of this Agreement, including keeping a record of Professional Accountants and Auditors that have moved under this Agreement;
ii. taking and recommending action where necessary;
iii. developing common examinations;
iv. developing a common website;
v. undertaking co-operation on training, practice standards and ethics; and
vi. co-ordinating the mutual exchange of information relating to the accountancy profession and the adoption of best practices.

ARTICLE 14
SETTLEMENT OF DISPUTES

1. In the event of a disagreement on the interpretation of any provision of this Agreement, or any dispute, controversy or claim arising out of, or relating to, this Agreement, the Parties to the disagreement, dispute, controversy or claim, shall use their best efforts to settle promptly such dispute through direct negotiation within 90 days.

2. Where the disputing Parties have not resolved the dispute through direct negotiations, they shall enter into binding mediation.

3. The disputing Parties shall agree on a mediator within 30 days of the conclusion of negotiations under sub-article 1. Where the disputing Parties cannot agree on a mediator within 30 days, a disputing Party may request the President of the Pan-African Federation of Accountants to appoint a mediator, provided that if the President of the Pan-African Federation of Accountants is a national of an APEI

Country, then the Vice-President of the Pan-African Federation of Accountants shall

within 120 days of the start of the mediation, and the decision of the mediator shall be final and binding on the Parties to the mediation.

5. A Competent Authority who is a third party to the dispute may file notice to join a mediation involving two Parties provided that written notice to the mediator is issued within 30 days of commencement of the mediation.

ARTICLE 15
AMENDMENTS

1. A Competent Authority may request in writing, to the Chairperson of the APAAC, an amendment to this Agreement.
2. The APAAC shall consider such amendments at the sitting immediately following the receipt of such written request.
3. A decision on the adoption of any such amendment shall be made within 12 months, unless the APAAC decides otherwise.

ARTICLE 16
ACCESSION

1. Any Competent Authority in an APEI Country that has acceded to the Memorandum of Understanding for Facilitation of Movement of Business Persons and Professionals Between APEI Countries may apply in writing through the Chairperson of the APAAC, to become a Party to this Agreement.

2. The APAAC shall meet as soon as possible, but no later than 3 months after receipt of the communication, to begin the process of accepting the applicant.

3. The APAAC shall conclude the accession process within 12 months of beginning the process to accept the applicant.

ARTICLE 17
WITHDRAWAL

Any Party may withdraw from this Agreement upon written notice delivered to the other Parties at least 180 days prior to the intended date of withdrawal. By such withdrawal, no Party shall nullify obligations already incurred for performance or failure to perform prior to the date of withdrawal.

ARTICLE 18 ENTRY INTO FORCE

1. This Agreement shall enter into force on the date of signature by the Competent Authorities of three (3) APEI Countries.

2. This Agreement shall be deposited with the Minister of Foreign Affairs of the APEI Country that is the Chairperson of the APEI Committee, who shall promptly furnish a certified copy thereof to each Competent Authority.

In witness whereof the undersigned, being duly authorised thereto by their respective Governments, have signed and sealed this agreement, each text being equally authentic.

Done at Lusaka, Zambia on this 28th day of February 2019.

……………………….……..
Institute of Chartered Accountants in Malawi
Republic of Malawi

…………………….……..

……………………………………………..

Mauritius Institute of Professional Accountants
Republic of Mauritius

Financial Report Council
Republic of Mauritius

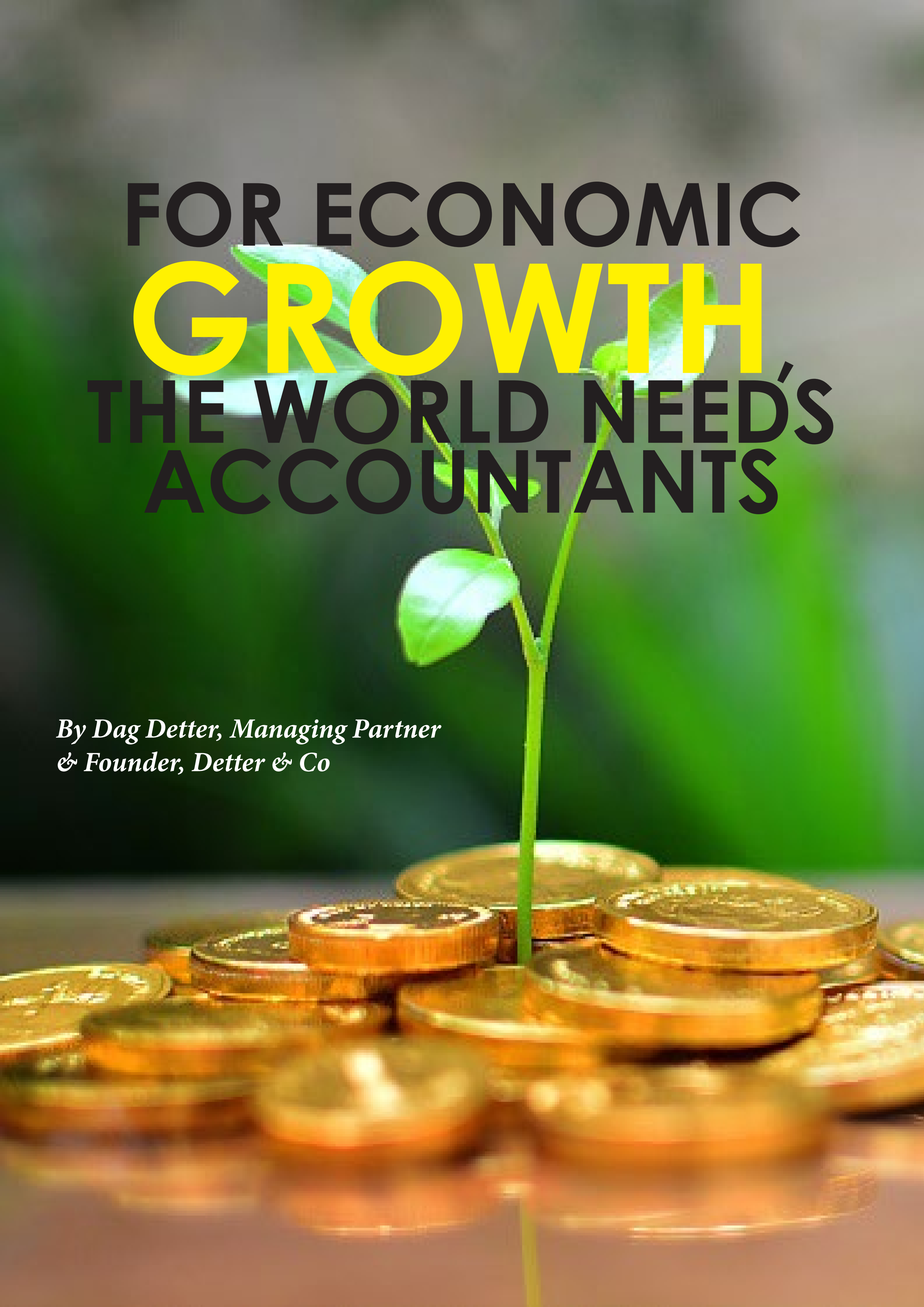
…………………………….……
Zambia Institute of Chartered Accountants
Republic of Zambia

……………………………………
Republic of Seychelles

…………………………..………
Ordem dos Contabilistas e Auditores de Moçambique
Republic of Mozambique

FOR ECONOMIC GROWTH THE WORLD NEED'S ACCOUNTANTS

By Dag Detter, Managing Partner & Founder, Detter & Co



FOR ECONOMIC GROWTH, THE WORLD NEEDS ACCOUNTANTS

by Dag Detter, Managing Partner & Founder, Detter & Co

The largest wealth segment in the world is hidden.

It is held by governments but the assets are mis-measured and mis-managed. Citizens—the ultimate owners of these assets—should demand better. If "public wealth" was properly measured, managed and better understood, society as a whole would benefit. But this requires modern accounting in the public sector and professional accountants to help build robust public finances.

If the world wants growth, it needs accounting and accountants in the public sector.

The global stock market is worth about US $78 trillion, which is roughly equivalent to the size of the global economy—or global GDP. This wealth segment is scrutinized at every moment by armies of analysts, brokers, investors, regulators, tax authorities and media. Much of the information that is analyzed is based on audited accounts using modern accounting standards refined over the last 800 years. The development of these accounting standards has not only enabled capital market development but also of the wealth that we all enjoy today.

Although the value of public assets is twice that of global stock markets, or 2x global GDP, according to estimates from the International Monetary Fund, it remains unaudited, unsupervised and unregulated. Even worse, it is almost entirely unaccounted for. Most governments largely ignore these assets and, the value that could be generated from them, when developing their budgets.

The question is are public assets being used and managed in the best interests of citizens? Sadly, the answer is probably not. Better accounting may not guarantee that assets will be better managed. But knowing what assets you have and what they are worth is a prerequisite for professional management, and increases the odds for a return back to society—instead of raising taxes.

In fact, professional management of public assets could, across advanced economies, generate annually more revenues than governments receive in corporate tax collections. This could also multiply the funds available for infrastructure investments or the UN's Sustainable Development Goals.

Politicians consistently underestimate, or completely ignore, the value of public assets and liabilities, including the cost of pension promises made to public sector workers. Although this is clearly a recipe for poor governance, if not outright corruption, it is only rarely heard in political debate. The main reason could be that this is about accounting—a topic of limited interest to many politicians.

Furthermore, according to IFAC, the global organization for the accountancy profession, only 8% of all professional accountants are in the public sector. The relative dearth of public sector accountants is directly reflected in the poor quality of information used by governments in their financial management. Managing financial performance and position without sound information is like flying blind into a storm. And, the area where the financial information is weakest is asset management.

This does not benefit anyone, since poor or risky accounting practices can shake, and ultimately bring down, entire societies. Accounting affects us all, as becomes apparent whenever there is a financial crisis, be it for banks, corporates or governments. Proper accounting is essential for the public sector—and by proper accounting we mean the type of accounting that has been used in the corporate sector for centuries.

The reality is that most governments are stuck in the Middle Ages when it comes to accounting. They have for too long been influenced by economists whose perspective on the management of public finances is limited to simple measures of cash flows and debt. This is like trying to manage a modern corporation using only the information available from the cash transactions recorded in the bank statements. Company accounting requires more complex information than this. This is equally true of governments.

For managing the financial affairs of a modern, highly complex government, the right tool is accrual accounting. A modern government needs a different mindset, a mindset that will recognize that managing public assets can generate revenues to pay for public services, fund infrastructure investments and boost the economy—without raising taxes. Like in the private sector, this means shifting the focus to net worth instead of a focus on cash and debt alone.

So far, only New Zealand has introduced modern accounting and integrated its balance sheet with the budget, using it as a tool for its budgeting, appropriations, and financial reporting. Since the public sector reforms in the mid-1980s, New Zealand has achieved and maintained significantly positive net worth, where most comparable governments like Australia and Canada, or larger countries such as the UK and US, have a negative net worth.

We rely on engineers using modern technology to design and build robust bridges. To build robust public finances, we need accountants using modern accounting systems.

This will benefit societies today and reduce the burden on future generations.

THEFT BY AUDIT

Moffat Ngalande FCCA, CA (Mw), CGEIT, CISA, BAcc.

Moffat Ngalande is an Associate Director at PricewaterhouseCoopers responsible for the Lilongwe office. He provides assurance and advisory services and implementation of PwC's Lilongwe strategy

When the audit process is used to commit fraud (Warning this article is emotive)

The deepest sense of betrayal happens when it is done by those that are meant to be trusted. The pain one feels in such instances is deep and excruciating. If a thief steals in the night or a robber mugs you along the road you cannot expect anything less of him. But once a protector and a gatekeeper does the same the dismay is great and the shock is paralysing.

In the business world shareholders entrust their investments to the care of management who act as stewards for the investors' wealth. Investors can include stakeholders such as donors in the public sector and also government entities and the general citizenry as stakeholders of various investments being managed. When you really think about the importance of management most investors are willing to establish lucrative profit sharing schemes in the name of performance bonuses. The reason for this is simple, "I may be a capital rich investor but don't have the time to run my business. I may be a majority owner or part owner.

But whatever the case I am also in partnership with the most significant employees of the organization." Usually this is the CEO, CFO and senior management. They are the ones protecting and managing my investment. Hence you will find that mostly for banks, rich football teams etc. there will be very lavish and almost inexplicable payouts to this group of people and mostly to the CEO.

In addition to the profit sharing schemes there is also a monitoring tool to ensure that funds are not being abused by management. This is the audit process. But how can this very tool become a sword that pierces the heart of the investor and who can wield it? That's what this discussion is about and please humour me as I share my musings with you in this regard.

An audit becomes a double edged when it ends up being a sham, at worst, or when it is so ineffective that it literally shrouds the reality and true state of affairs on the ground. It then becomes a shroud of death concealing the rot and corruption of death beneath.

The first way an audit becomes ineffective is if it is not regarded as important by management and shareholders. Have you ever heard the words 'An opinion is just a signature at the end of the day'? I have! And from many a friend. When all management wants is a signature then investors and stakeholders including you and me, and the nation at large are in deep trouble! This means an audit is not being used as a litmus test to give assurance of good stewardship. In fact it means stewardship is not at the heart of management! Management are responsible for internal control and ensuring that true and fair financial statements are prepared. If these stewards look at the audit as a mere signature they will not execute their core duty of establishing controls that strengthen good governance and address fraud and loss for the benefit of shareholders. In fact the audit process will be a necessary evil! Therefore the audit process should be valued by all. By management and shareholders alike.

However how can we show value for the audit? One of the importance ways is ensuring a quality and efficient audit process. This can be demonstrated by management's high regard for the audit process evidenced by proper preparation, auditor assistance and responsiveness to the auditor during the audit process and finally proper response, implementation monitoring of recommendations made by auditors. Proper response does not mean shooting down every recommendation made by the auditor. I commonly hear of management ridiculing the auditor for reporting a 1 day delay for remitting statutory liabilities such as corporate and pay as you earn taxes and pension for example. 'It's just a day' they say 'tell me more important things and don't waste my time'. My message to the shareholder is when the authorities fine you with penalties and interest at amounts several multiple of the actual liability, or when other weaknesses are reported which are fraud indicators such as matters to do with payments and cash reconciliations don't say we did not warn you because laxity stems from such attitudes.
In the same spirit, management will fight tooth and nail when an auditor legitimately qualify his opinion or they have a difference of opinion on key estimates that affect the performance of the organization. I have seen auditors lose audits if they stand their ground and while I am happy to lose an audit this way others have held on the audit through compromise and outright bribery which is an insult to this noble profession. I know of an audit team who was offered money to remove certain items from their internal controls report or even to change their opinion. Such professionals (and forgive me for using the word professionals) don't deserve to be called accountants at all! This is truly theft by audit!

When the audit professional is successfully corrupted we end up having the "Dirty Cop" syndrome. This is the worst! This will mostly go up the ranks of the audit firm and not only remain at lower levels. In some case the dirty cop syndrome will be seen through the tendering process. Dirty cops leave nothing to chance. They start with the procurement process and ensure to oil the palms of the procurement team through cash rewards as a percentage of audit fees. In addition to that they themselves will thirst for cash when client is desperate. They will be like "oh no this finding is so serious it can affect my audit opinion" "But I can make it disappear if you want." Some underhand exchanges take place and "Voila" you have a clean opinion. I have seen significant issues being raised by audit teams and at the end of the day they are "cleared" by the Partner and CFO or CEO. When you inspect the audit file you would discover that nothing actually supports the conclusions reached. This is exactly what happened to VBS Mutual bank in their cash and bank section. An audit clerk reported an issue and the Partner and Senior Management "cleared" and removed the item from the report to the board. It was later discovered that nothing was actually resolved or documented on file and the partner in charge had significant financial benefits through excessive facilities and loans from the same bank! Its jaw dropping I know! but that's what you get with the "Dirty Cop Syndrome."

This is also the 'it's just a signature mentality' but tell that to the investor on Wall Street and ask Arthur Anderson who literally just put a signature on the accounts of Enron. Families have been devastated savings have been wiped out, pensions for minim wage earners and blue and white collar workers have simply vanished into thin air with devastating consequences such as poverty, depression and even suicide. This is also what has happened at VBS mutual bank in RSA where looting by politicians has done just that. Or cash gate in Malawi At a time when public services are being compromised such as lack of quality education, lack of medication, theft of medication and myriad other problems in the country. 'It's just a signature?' 'It's just a

signature? Yeah right! "It's just a signature my foot!'
The value of the audit also comes into question when it's wrongly priced. I believe an audit is more like heart surgery which is a very specialized medical service. People will generally know that hospital A is 20% more expensive than hospital B but at least they are assured of somewhat similar quality. But if someone told you that a 'clinic' down the road is providing both these services at the cost of a dollar and it's not a government or donor funded hospital you would take it with a pinch of salt! In fact I would not accept a $1 heart surgery coz I would suspect something else is going on. Maybe they are trading in human organs and I will lose one kidney in the process? There is always a catch! An audit is like heart surgery. It tries to understand what makes the organization tick and repair the governance structures that are apparently broken. It is also like an annual medical. You don't want this to be done by someone who simply checks your temperature and naively declares you whole while sending you back without any tests. Doctors are not trained to please people they are trained to tell you the truth! If you are dying they will tell you, if there is hope they will tell you, if chances are fifty-fifty they will also tell you! It's their job.

In fact there is no heart surgery that costs a dollar or that is free. The truth of the matter is that someone always pays the price. If it's in a government hospital it's the government, if a private hospital they will pass on the cost to you and if it's a sponsored hospital the donor pays even though I may think it's free. If indeed it is free, I may pay a missing kidney or with my very life for being so naive. We shouldn't either!
How do we price an audit? Well firstly I believe every steward in management should have basic audit pricing knowledge. Firstly you need to understand the effort required to audit your company based on your size. This can be determined by the number of transactions which is in turn a factor of the level of turnover, funding, the size of assets (for banks and similar asset based entities) the nature of the industry (e.g. financial services can be more complex). All these preceding factors will determine the complexity of your audit and therefore the skill required and even hours that would result in a quality audit.

For example if I know I am an asset intensive business with many locations I know I may need a week or two to audit the fixed assets section of the entity. Maybe I may need similar time for inventory balances in my financial statements and so on. I should then have an idea of how many auditors are required to complete my audit and at what levels. If I am in an entity that has mainly donor income and expenditure with little complex transaction, I will not need the skill of someone auditing a bank. I can even estimate I need only three people for the audit for 2 weeks only. If I am auditing a national bank for example then even 4 people are a serious joke! After estimating the man-hours required say 3 people at 40 hours a week per person for 2 weeks your NGO audit should require 240 man-hours this should then be multiplied by the standard or average rate of the auditor. If it is K10,000 per hour the audit will cost K2,400,000. Now audit firms differ and have different average rates. The theory is "the higher the average rate the better the quality."

Quality is affected by the cost structure of the auditor. His K10,000 per hour should ideally cover for his overhead costs. These include, rent for his office, salaries, training of staff and access to auditing resources such as audit software and audit programs. The lower the average rate the lower the auditors ability to invest in these tools of the trade and therefore the lower the quality of the auditor. The K10,000 should also cover all costs and even leave a profit for the partner. So audits, just like heart surgeries, are not cheap! So many things happen when you choose to go cheap, also called lowballing in audit.

Firstly you cannot attract the right talent because you cannot pay them enough, consequently you cannot retain good skill. Thirdly you cannot invest in training and you overwork the few people you have. You may not be able to meet client demands because you may have too much work but very few staff. You end up short changing your clients by sending 1 person this week, another person the following week and a third person the other all because you are overwhelmed. This leads to poor quality work, and failure to meet requirements of standards that govern the audit process. Effectively you are cheating the client in addition to cheating yourself. Such poorly funded audits result in the auditor not picking key errors in the financial statements and that destroy the confidence of not only management but also investors. Worse still, you fail to report fraud indicators which exonerate you if fraud where to occur. You are unable to say 'but we reported this or the indications of this and we were ignored.'

Internally the auditor may also consistently fail to meet audit quality control standards and the regulators such as Malawi Accountants Board may fine them or revoke their licenses. What is more worrying is that mostly firms that run into trouble have been revieweed before by the poweres that be. Like a health inspector visiting a resturant brushes issues aside until a deadly illness engulfs the city because of their negligence so do some regulators give a clean bill of health to practitioners they know for a fact are flouting the rules. This is mainly due to their "status in society" or simply their power to manipulate the inspector. If part of global audit firms. Local staff or whole firms may be asked to leave the global brand so as not to tarnish their brand. We saw this happen in South Africa due to when firsm had to let go of staff who worked on the infamous "Gupta audit" with whole firm being let go in other territories. Ultimately you and I suffer directly or indirectly due to not only a poorly priced audit but also failure to maintain quality.

Sometimes management deliberately avoid 'intelligent' auditors under the guise of high fees when the real issue is fear of them uncovering serious internal control failures. So, as investors we must be concerned. Stakeholders should be concerned! Generally the more revenue or larger the company the higher the audit fees. And as a general rule the audit fee should at least 0.5 to 1% and more of total turnover. If I were a donor funding a project worth K720 million I should be concerned if my audit fee is K2.4million because I should expect a fee of at least K7.2 million. And indeed most donor budgets have an audit fee budgeted in this range. What is surprising is the procurement geniuses...er I mean experts, go for the lowest bidder under the guise of "quality and cost" whose process is muffled with false perceptions, perceptions, personal biases and so on in the technical evaluation process to eliminate those they distrust and justify their choice. This is essentially short changing the investor and for donors who properly budget their costs it's an abuse of resources in the guise budget line reallocations which would at times go to the salary or bonus line. I marvel at public entities with serious complexities and responsibilities to the public, with very high volume of transactions who commit this type of theft by audit.

The last ingredient of the 'theft by audit' platter is 'a table spoon' of poor preparation for and response to the audit. This affects all phases of the audit process. To prepare for the audit is to have your house in order... to firstly have your financial statements and then to support them with the books and records of accounts. Usually especially in our market the quality of education has declined to the extent that we offer a degree or other academic qualification to someone who can hardly differentiate a trial balance from a general ledger, who does not know how to balance a cash flow statement or prepare a decent set of financial statements but, luckily, can spell and pronounce the words "debit" and "credit". Unlike other territories where a simply review financial statements in Malawi auditors mostly "prepare financial statements" under the guise of "assisting" in the preparation of the same. This is compounded with delayed provision of audit evidence meaning management do not own the audit process hence diluting its importance to an annual "entertaining" event which at times coincides with annual holidays. The quality of evidence provided for the audit is therefore compromised as auditors are forced by the trade to conclude the audit and end up doing a fast job increasing the risk of missing important findings. It's is therefore important for management to properly value the audit by preparing for it adequately. An audit pack can be prepared including a neat and almost final set of financial statements that is 'board ready' and can be called on by the board with little changes and few additional analyses of key transactions and balances such as estimates of impairments, tax computations, contingent liabilities that need disclosure and so on and so forth.

So how shall we conclude this wordy discussion? The "dish" and "hearty meal" of an "ineffective audit" has several interesting ingredients. The appetizer is poor perception of the importance of an audit, the main course is a serving of poorly priced audits as the main starch with a side of poor execution, since the expected standard of the serving is low by both parties. The dessert is failure to respond to issues raised during the audit coupled with a failure to respond to or resolve audit findings or when we hear the words 'voila' and we make them disappear! What a filling platter and at the end of this meal we don't leave the table without a tip from the our guests who ordered the meal; the clients donors, investors and regulators alike when we turn a blind eye and remain unconcerned to all that is going on around us. And the end

PRICE IS WHAT YOU PAY, VALUE IS WHAT YOU GET (PART 4 - FINAL)

Emmanuel Chokani, CFA, FCCA is the Chief Executive Officer for NICO Asset Managers Limited. NICO Asset Managers has an investment portfolio of over K400 billon assets under management. He is a CFA (Chartered Financial Analyst) Charterholder and Chartered Accountant. He is a member of the CFA Institute (USA), CFA Society South Africa, ICAM (Malawi), ACCA and the Corporate Finance Faculty of ICAEW (UK). Emmanuel has extensive experience in investment management, corporate finance, real estate development, strategic and risk management. He previously was the Head of Risk and Compliance at NICO Holdings and spent at least 5 years with Deloitte rising to the position of Audit manager. Emmanuel graduated with Distinction with a Bachelor of Accountancy from the University of Malawi. Emmanuel directly oversees the Corporate Finance Division of NICO Asset Managers responsible for equity and debt capital raising, valuations, economic research, structured finance, transaction and financial advisory services.

Email: emmanuelchokani@gmail.com

VALUING A PRIVATE COMPANY

By Emmanuel Chokani, CFA, FCCA

This article is a conclusion of the series on valuing a company. In the previous articles we have looked at defining valuation, valuation methodologies and the various key matters to consider when implementing these methodologies. In this article we look at valuation of a private company and valuation standards.

Determining the value of a private company and knowing what drives its value is a prerequisite to deciding the appropriate price to pay or receive in an acquisition, merger transaction etc.

The process of valuing private companies is not different from the process of valuing public companies. As with a public company you either value the entire business at the cost of capital or the equity of the business by discounting at the cost of equity. To conduct the valuation the same process of estimating cash-flows, discounting these at the cost of equity or capital and computing a present value are adopted for a private company as well. The challenge with private companies arises from the following:

1. A private company may be of smaller size compared to a public company in terms of its balance sheet, income statement etc
2. It may be less mature as compared to a private company for example it could still be in a growth stage of its lifecycle. It may lack operational history.
3. The quality and depth of management may be perceived to lower compared to a public company
4. Management may hold a significant equity position in the private company
5. Financial statements or management information may have less detail and may only go back for a few years.
6. Potential restrictions on sale of shares as covered through shareholders agreements
7. A limited number of existing shareholders and potential buyers reduces the value and liquidity of the private company shares

Privately held companies are generally much smaller than publicly traded counterparts for example Standard Bank Malawi Plc vs New Finance Bank. Size contributes to the discount of the valuation since it reflects the risk attached to a smaller sized company.

Operating history is important to determine a track record for revenue growth, profitability growth etc. The less operating history a private company has the greater the risk for inconsistent cashflows which leads to a greater valuation discount.

The valuation discount can be dependent on whether a private company operates within a niche or has a variety of product mixes. Market share and product concentration add to business risk.

Private companies may have a very small pool of shareholders that often act as managers. This limits the pool of talent running the private company. Often times, the existence of the company is dependent on the skills of key management who also happen to be owners of the business. With no clear succession plan among other challenges, risk increases.

A private company may be managed for tax minimization, long term growth or cashflow. Different operational motives make it difficult to determine true earnings and cashflows. The valuer needs to normalize financials when valuing a private company in order to determine what the private company would be earning if it was operated like a public company in certain instances. Normalizing earnings adjusts for unusual or non recurring items.

A private company is primarily dependent on bank loans as additional sources of funding. Bank loans can weaken the balance sheet and internal cashflows.

Finding the true intrinsic value of a private company is a tricky task. It entails a set of calculations and assumptions based on industry wide and company specific data. It includes adjusting the financial statements and applying the appropriate business valuation methodology. The factors mentioned above namely size, lack of operational history, management and operational control, difficulty quantifying earnings and cashflow, capital structure and risk in the business can all influence the valuation. Various valuation methodologies will each yield a different result as a result of the sensitivity of inputs. In addition, certain modifications are required to adjust for the private status of the company.

Various subjective estimates influenced by motivations and incentives may alter valuation outcomes. One might need to value a private company for the following reasons:

1. To sell it
2. To raise capital from investors
3. For a management buyout
4. For an employee share ownership plan

Lack of control discounts may be necessary for valuing non-controlling equity interests in private companies. The lack of control may reflect the disadvantages to an investor for his or her inability to select directors, officers, management that control operations of an entity. In addition a private company may be discounted due to lack of marketability reflecting concerns on liquidity, transferability of shares, contractual provisions in shareholders agreements etc. These discounts are termed “Discounts for Lack of Control” and “Discount for Lack of Marketability”. These discounts can range anywhere between 20-40% overall of the pre-discount value.

Valuation approaches

There are three valuation approaches:

1. Income approach
2. Asset based approach
3. Market based approach

The income approach involves discounting future cashflows to determine present value. The discount rate for a private company would be adjusted for small size risk premiums, company specific risk premiums etc. The market based approach uses pricing multiples of similar companies or sale values of similar companies and the asset based approach uses net assets.

For early stage companies, typically the valuer would use net assets while for later stage companies the income and market based methodologies are more appropriate. The asset based approach is also applied for asset holding companies eg property companies, very small companies or companies that were recently formed and have limited operating histories. The market based approach can look at multiples of public companies for example if Standard Bank Plc trades at two times P/B then that would be a starting point for valuing New Finance Bank. The market based approach also looks at recent transactions that have occurred within the market. for example, in 2013, Sanlam Emerging Markets acquired 49% of NICO General Insurance at 1.3 times Tangible net asset value. This multiple can be used as a basis for valuing another insurance company for a similar transaction. Such multiples however have to be adjusted by relative risk and growth prospect of the subject company.

Valuation standards

The International Valuation Standards Council (IVSC) is the global standard setter for valuation standards and practice. It is a non-profit making organization which is supported by its members and sponsors which include the World Bank, United Nations, major international accounting/auditing firms etc. The IVSC works closely with national standards setting bodies, governments, regulators to encourage the adoption of International Valuation Standards (IVS). Unlike financial reporting which has been unified under IFRS, valuation standards vary across the world with various bodies issuing standards eg in the USA the American Society of Appraisers requires members to comply with USPAP (Uniform Standards of Professional Appraisal Practice). The American Institute of Certified Public Accountants (AICPA) has issued Statement of Standards on Valuation Services.

The current chair of the IVSC Board of Trustees is Sir David Tweedie who is the former Chair of the International Accounting Standards Board (IASB).

IVS cover tangible, intangible assets and financial instruments. Different technical boards cover these categories. The IVS are categorized as follows:

1. General framework – these are principles for valuers following the IVS regarding objectivity, judgement, competence and acceptable departures from the IVS.
2. General standards - these set forth requirements for the conduct of all valuation assignments including establishing the terms of a valuation engagement, bases of value, valuation approaches and methods, and reporting. They are designed to be applicable to valuations of all types of assets and for any valuation purpose.
3. Asset standards - these requirements relate to specific types of assets. The Asset Standards include certain background information on the characteristics of each asset type that influence value and additional asset-specific requirements on common valuation approaches and methods used.

Other groups have released valuation guidance for example the International Private Equity and Venture Capital Valuation Guideline issued by the IPEV Board.

Conclusion

This concludes the end of the four part series of articles on valuation. We have looked at defining valuation, valuation methodologies, private company valuation and finally valuation standards. Valuation involves aspects of technical computations and judgment. It is a truly a mix of art and science.

ICAM Magazine : January - March 2019

THE INSTITUTE OF
CHARTERED ACCOUNTANTS
IN MALAWI