

**THE INSTITUTE OF CHARTERED
ACCOUNTANTS IN MALAWI (ICAM)**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2018

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

LIST OF ACRONYMS

| | |
|-------|---|
| AGM | Annual General Meeting |
| ACCA | Association of Chartered Certified Accountants |
| CPD | Continuous Professional Development |
| IAS | International Accounting Standards |
| IASB | International Accounting Standards Board |
| ICAEW | Institute of Chartered Accountants in England and Wales |
| ICAM | Institute of Chartered Accountants in Malawi |
| ID | Identity card |
| IESBA | International Ethics Standards Board of Accountants |
| IFRS | International Financial Reporting Standards |
| ISA | International Standards on Auditing |
| PAEC | Public Accountants Examinations Council |
| PQ | Professional Qualification |
| SOCAM | Society of Accountants in Malawi |

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

COUNCIL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

1. Incorporation

ICAM is the Institute of Chartered Accountants in Malawi which was incorporated as a company limited by guarantee on 23 August 2013 arising from the merger of the Society of Accountants in Malawi (SOCAM) and the Public Accountants Examination Council (PAEC).

2. Objectives of the Institute

The objectives, functions and powers of the Institute are provided in Section 40, 41 and 42 of the Public Accountants and Auditors Act (No.5 of 2013).

The activities of the Institute include, inter alia:

- Promoting the development of the accountancy profession;
- Ensuring that members of the Institute obtain necessary technical and ethical guidance that enable them to meet the needs of the community in areas in which they have special knowledge and expertise;
- Developing professional qualifications for accountants and auditors in Malawi;
- Setting accounting and auditing standards appropriate to conditions prevailing in Malawi with international acceptance of audited financial statements originating in Malawi.

As at 31 December 2018 the Institute had 2,012 active members (2017: 1,514 members) and 5,689 active students (2017: 5,979 students) on its register.

3. Financial performance

The Institute made a deficit for the year of K112 million (2017: K185 million surplus). Total reserves were K1.106 billion as at 31 December 2018 (2017: K1.218 billion). In view of the nature of the Institute's business and mandate, the results, together with the financial position, are considered satisfactory.

4. Going concern

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realization of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

COUNCIL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2018

5. Council members

The Council members of the Institute during the year were as follows:

| <i>Name</i> | <i>Period served</i> |
|--|----------------------|
| Mr. Joel Mwenelupembe (President - Sep to Dec 2018 and Vice President - Jan to Sep 2018) | Jan to Dec 2018 |
| Mr. Henry Chowawa (President Jan to Sep 2018) | Jan to Sep 2018 |
| Mrs. Phyles Kachingwe (Vice President - Sep to Dec 2018) | Jan to Dec 2018 |
| Mrs. Madalo Mwenelupembe | Jan to Dec 2018 |
| Mr. Peter Chetama | Jan to Dec 2018 |
| Mr. David Mhango (Jan. to Sep.2018, co-opted in Dec.2018) | Jan to Dec 2018 |
| Mr. Moffat Ngalande | Jan to Dec 2018 |
| Mrs. Hilda Singo | Jan to Dec 2018 |
| Mr. Samuel Yakobe | Jan to Dec 2018 |
| Mr. Kezzie Mkandawire | Jan to Dec 2018 |
| Mr. Daniel Jere | Jan to Dec 2018 |
| Mrs. Victoria Munkhondya | Jan to Dec 2018 |
| The Accountant General (Ex officio) | Jan to Dec 2018 |
| The Auditor General (Ex officio) | Jan to Dec 2018 |
| Mr. James Kamsesa | Sep to Dec 2018 |

6. Secretary

Dr. Francis Chinjoka Gondwe

Business and postal address

Stansfield House, Blantyre
P.O. Box 1, Blantyre
Malawi

7. Independent auditor

The Council made a resolution to tender out the audit for the year ending 31 December 2019. Accordingly, auditors for the year 2019 will be selected after a due procurement process.



President



Chairperson- Audit Committee

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

STATEMENT OF COUNCIL MEMBERS' RESPONSIBILITIES FOR THE YEAR ENDED 31 DECEMBER 2018

The Council members are required by the Companies Act 2013, to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is their responsibility to ensure that the financial statements give a true and fair view of the state of affairs of the Institute as at the end of the financial year and of the results of its operations and cash flows for the year then ended, in conformity with International Financial Reporting Standards.

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.


The Council members acknowledge that they are ultimately responsible for the system of internal control established by the Council and place considerable importance on maintaining a strong control environment. To enable the Council members meet these responsibilities, the Council sets minimum standards for internal control aimed at reducing risks in a cost effective manner. The standards include proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are maintained at all levels in the Institute and all employees are required to maintain the highest ethical standards in ensuring the Institute's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Institute is on identifying, assessing, managing and monitoring all known forms of risk across the Institute. While risk cannot be fully eliminated, the Institute endeavours to minimize it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Council members believe that the system of internal control provides a reasonable basis for the preparation of the financial statements.

The going-concern basis has been adopted in preparing the Institute's financial statements. The Council members have reviewed the Institute's budget for the year to 31 December 2019 and the current financial position; they are satisfied that the Institute will continue in operational existence for the foreseeable future.

The independent auditor is responsible for auditing the financial statements of the Institute in accordance with International Standards on Auditing and expressing an opinion on whether the financial statements give a true and fair view of the financial position and performance of the Institute in accordance with the International Financial Reporting Standards (IFRS). The auditor's independent report is on pages 4 to 6.

The financial statements set out on pages 7 to 28 were authorized for issue by the Council on 22 MARCH 2019 and are signed on its behalf by:



President



Chairperson- Audit Committee

**AUDITOR'S REPORT TO THE MEMBERS OF
THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI**

Opinion

We have audited the financial statements of the Institute of Chartered Accountants in Malawi, which comprise the statement of financial position as at 31 December 2018, and the statement of comprehensive income, statement of changes in reserves and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Institute of Chartered Accountants in Malawi as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and Companies Act, 2013 (Cap.46:03).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Institute in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Council for the financial statements

The Council is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in a manner required by the Companies Act, 2013 and for such internal control as Council determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Council is responsible for assessing the Institute's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Council either intends to cease operations, or has no realistic alternative but to do so.

The Council is responsible for overseeing the Institute's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

**AUDITOR'S REPORT TO THE MEMBERS OF
THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI**

Auditor's responsibilities for the audit of the financial statements - continued

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Council.
- Conclude on the appropriateness of the Council's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Institute's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Institute to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entity or business activities within the Institute to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

**AUDITOR'S REPORT TO THE MEMBERS OF
THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI**

Auditor's responsibilities for the audit of the financial statements - continued

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mrs. Dorothy Ngwira.

Signature in the name of the audit firm: _____

Graham Carr

Signature of engagement partner: _____

Dorothy Ngwira

Date: 2 April 2019

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

Figures in thousands of Malawi Kwacha

| | Note | 2018 | 2017 |
|---------------------------------------|------|-------------------------|-------------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 6 | 610,285 | 278,164 |
| Receivables | 7 | 24,176 | 23,996 |
| Total non-current assets | | <u>634,461</u> | <u>302,160</u> |
| Current assets | | | |
| Inventories | 8 | 16,167 | 47,028 |
| Receivables | 7 | 149,020 | 115,187 |
| Cash and cash equivalents | 9 | 547,328 | 972,580 |
| Total current assets | | <u>712,515</u> | <u>1,134,795</u> |
| Total assets | | <u><u>1,346,976</u></u> | <u><u>1,436,955</u></u> |
| RESERVES AND LIABILITIES | | | |
| Reserves | | | |
| Special project reserve | | 1,100,000 | 1,100,000 |
| Accumulated surplus | | 6,090 | 118,185 |
| Total reserves | | <u>1,106,090</u> | <u>1,218,185</u> |
| Current liabilities | | | |
| Payables | 10 | 240,886 | 218,770 |
| Total current liabilities | | <u>240,886</u> | <u>218,770</u> |
| Total reserves and liabilities | | <u><u>1,346,976</u></u> | <u><u>1,436,955</u></u> |

The financial statements were authorized for issue by the Council on 22 MARCH.....2019 and were signed on its behalf by :



 President



 Chairperson- Audit Committee

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

Figures in thousands of Malawi Kwacha

| | Note | 2018 | 2017 |
|--|------|-------------------------|-----------------------|
| Revenue | | | |
| Revenue from members | 12 | 899,409 | 729,265 |
| Revenue from examinations | 13 | 646,999 | 780,925 |
| Total revenue | | <u>1,546,408</u> | <u>1,510,190</u> |
| Direct expenses | | | |
| Members expenses | 14 | 467,461 | 314,861 |
| Examinations expenses | 15 | 224,183 | 270,320 |
| Total direct expenses | | <u>691,644</u> | <u>585,181</u> |
| Sundry income | 16 | 11,044 | 4,058 |
| Total sundry income | | <u>11,044</u> | <u>4,058</u> |
| Surplus before operating expenses | | <u>865,808</u> | <u>929,067</u> |
| Operating expenses | | | |
| MAB fees | 17 | 130,745 | 129,700 |
| Administration expenses | 18 | 393,929 | 328,336 |
| Council and committee expenses | 19 | 27,072 | 30,233 |
| Personnel expenses | 20 | 535,246 | 426,105 |
| Total operating expenses | | <u>1,086,992</u> | <u>914,374</u> |
| (Deficit)/surplus before financing income and exchange losses | | <u>(221,184)</u> | <u>14,693</u> |
| Financing income | | | |
| Exchange losses | | (435) | (578) |
| Investment income | 21 | 109,525 | 170,575 |
| (Deficit)/surplus for the year | | <u><u>(112,094)</u></u> | <u><u>184,690</u></u> |

*The notes on pages 11 to 29 form part of these financial statements
Auditor's Report - Page 4 to 6*

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

STATEMENT OF CHANGES IN RESERVES
FOR THE YEAR ENDED 31 DECEMBER 2018

Figures in thousands of Malawi Kwacha

| | Special project reserve | Accumulated surplus | Total |
|--------------------------------------|----------------------------|------------------------|------------------|
| Balance at 1 January 2017 | 700,000 | 333,494 | 1,033,494 |
| Surplus for the year | - | 184,690 | 184,690 |
| Transfer to special projects reserve | <u>400,000</u> | <u>(400,000)</u> | <u>-</u> |
| Balance at 31 December 2017 | <u>1,100,000</u> | <u>118,184</u> | <u>1,218,184</u> |
| Deficit for the year | <u>-</u> | <u>(112,094)</u> | <u>(112,094)</u> |
| Balance at 31 December 2018 | <u>1,100,000</u> | <u>6,090</u> | <u>1,106,090</u> |

Please refer to note 4.6 on page 16 for a detailed description of the reserves.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

Figures in thousands of Malawi Kwacha

| | Note | 2018 | 2017 |
|---|------|------------------|----------------|
| Cash flow from operating activities | | | |
| (Deficit)/surplus for the year | | (112,094) | 184,690 |
| Adjustment for:- | | | |
| Depreciation | 6 | 65,412 | 58,845 |
| Interest received | 21 | (109,525) | (170,575) |
| Profit on disposal | | (682) | - |
| | | (156,889) | 72,960 |
| Movements in working capital | | | |
| Decrease in inventories | 8 | 30,861 | 18,835 |
| Increase in receivables | 7 | (34,013) | (23,563) |
| Increase/(decrease) in payables | 10 | 22,116 | (20,571) |
| Net cash (used in)/generated from operating activities | | (137,925) | 47,661 |
| Cash flows from investing activities | | | |
| Interest received | 21 | 109,525 | 170,575 |
| Purchase of property, plant and equipment | 6 | (397,868) | (108,330) |
| Proceeds from disposal of equipment | | 1,016 | - |
| Net cash (used in)/generated from investing activities | | (287,327) | 62,245 |
| Net (decrease)/increase in cash and cash equivalents | | (425,252) | 109,906 |
| Cash and cash equivalents at the beginning of the year | | 972,580 | 862,673 |
| Cash and cash equivalents at the end of the year | 9 | 547,328 | 972,580 |
| Additional information | | | |
| Net movement in working capital | | (444,396) | 113,101 |

The notes on pages 11 to 29 form part of these financial statements
Auditor's Report - Page 4 to 6

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1 GENERAL INFORMATION

ICAM is the Institute of Chartered Accountants in Malawi which was incorporated as a company limited by guarantee on 23 August 2013 arising from the merger of the Society of Accountants in Malawi (SOCAM) and the Public Accountants Examination Council (PAEC).

2 BASIS OF PREPARATION

These financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and the Companies Act, 2013 (Cap.46:03). These financial statements have also been prepared on the historical cost convention basis and as modified by the valuation of assets and liabilities. The principal accounting policies adopted are set out below:-

3 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

3.1

Standards and interpretations affecting figures reported and disclosed in the financial statements

In the current year, the Institute has initially applied IFRS 9 (See 3.1a) and IFRS 15 (See 3.1b) from 1st January 2018. The Institute has adopted the cumulative transition method in applying these standards. Accordingly, comparative information throughout these financial statements has not been restated to reflect the requirements of the new standard.

The adoption of these new and revised Standards did not have a significant impact on the financial statements of the Institute.

New and revised IFRSs adopted

a IFRS 9 Financial Instruments (as revised in 2014)

The Institute has recognized impairment loss allowances on trade receivables (Note 22.3) equal to Expected Credit Loss (ECL). ECL was calculated based on possible recoverable amount and probability of default of the balance.

Trade receivables were assessed individually for probability of default, based on the assessment of increase in credit risk.

b IFRS 15 Revenue from Contracts with Customers

Under IFRS 15, revenue is recognized when a customer obtains control of goods or services. The Institute used judgement to determine the timing of the transfer of control as follows:

i) Student fees: revenue was recognized upon delivery of applicable services (examination entry registrations and production of related service materials)

ii) Membership fees: revenue was recognized on renewal of membership, and the Institute determined a member has the right to membership benefits from the point of payment to 31 December.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

3 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)

New and revised IFRSs adopted - continued

- b IFRS 15 Revenue from Contracts with Customers* iii) CPD revenue: revenue is recognized on occurrence of the CPD event, the point at which participants receive the service.
- c IAS 7 Statement of Cash flows* Issued in January 2016. The amendments in Disclosure Initiative (Amendments to IAS 7) come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities. Effective for annual periods beginning on or after 1 January 2017.
- IAS 12 Income Taxes* Issued in January 2016. Amended to clarify when a deferred tax asset should be recognized for unrealized losses. Effective for annual periods beginning on or after 1 January 2017.
- IAS 40 Investment Property* Issued in December 2016. Amendments to paragraph 57 to reinforce the principle for transfers into, or out of, investment property in IAS 40; to specify that such a transfer should only be made when there has been a change in use of the property. Effective for annual periods beginning on or after 1 January 2018.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration* Issued in December 2016. The interpretation addresses foreign currency transactions or parts of transactions where: there is consideration that is denominated or priced in a foreign currency; the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and the prepayment asset or deferred income liability is non-monetary. Effective for annual periods beginning on or after 1 January 2018.

3.2 Standards and Interpretations in issue not yet adopted

- IFRS 16 Leases* Issued in January 2016. IFRS 16 specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17. Effective for annual reporting periods beginning on or after 1 January 2019.
- IFRS 23 Uncertainty over Income Tax Treatments* Issued in June 2017. The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. Effective for annual reporting periods beginning on or after 1 January 2019.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

3 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (CONTINUED)

Standards and Interpretations in issue not yet adopted - continued

IAS 23 Borrowing costs Issued in December 2017. The amendments clarify that if any specific borrowing remains outstanding after the related asset is ready for its intended use or sale, that borrowing becomes part of the funds that an entity borrows generally when calculating the capitalisation rate on general borrowings. Effective for annual periods beginning on or after 1 January 2019.

Conceptual framework in IFRS Standards Issued in March 2018. There are amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Effective for annual periods beginning on or after 1 January 2020.

The members of the Council anticipate that the new standards, amendments and interpretations will be adopted in the Institute's financial statements when they become effective. The Institute has assessed where practicable, the potential impact of these new standards, amendments and interpretations that will be effective in future periods.

4 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies of the Institute which are set out below, have been consistently followed in all material aspects, unless otherwise stated.

4.1 Foreign currency transactions

Functional and presentation currency

The financial statements are presented in Malawi Kwacha which is the Institute's functional and presentation currency.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlements of such transactions and the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currency are recognized in the income statement.

4.2 Property, plant and equipment

The cost of an item of property, plant and equipment is recognized as an asset when:

- it is probable that future economic benefits associated with the item will flow to the Institute;
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost. Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognized in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognized.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.2 Property, plant and equipment - continued

Property, plant and equipment are depreciated on a straight line basis so as to write down the cost over their expected useful lives to their estimated residual value. Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

The useful lives of items of property, plant and equipment have been assessed as follows:

| | |
|------------------------|----------|
| Land | Infinite |
| Building | 50 years |
| Motor vehicles | 5 years |
| Office equipment | 3 years |
| Examination furniture | 5 years |
| Furniture and fixtures | 10 years |

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting period. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

The depreciation charge for each period is recognized in the income statement unless it is included in the carrying amount of another asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognized. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

An asset's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount.

4.3 Impairment of non financial assets

The carrying amounts of the Institute's assets are reviewed at each reporting period's closing date to determine whether there is any indication of impairment. If such indication exists, the assets recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement.

At each reporting period's closing date, the Institute reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.3 Impairment of non financial assets - continued

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

4.4 Grants and donations

Government grants are recognized when there is reasonable assurance that:

- the Institute will comply with the conditions attaching to them; and
- the grants and donations will be received.

Revenue grants are recognized as income over the periods necessary to match them with the related costs that they are intended to compensate. Grants not spent at year end are recognized as deferred income to be utilized in future periods.

4.5 Revenue

The Institute derives its revenue from contracts with customers for the transfer of and services over time and at a point in time in the following service lines.

(i) Subscriptions

Subscriptions represent the amounts received from members and students of the Institute during the year. Subscriptions in arrears are not recognized and membership for any unpaid subscription is lapsed. Membership subscriptions received from new applicants for membership are kept in other payables until the time of the approval of the membership application by the Council.

(ii) Examination fees

Examination fees represent fees received in respect of examinations conducted within the year.

(iii) Revenue from the Institute's other income generating activities

Revenue from the Institute's activities includes gross receipts from the participants to the various continuing professional development activities undertaken by the Institute during the year. Revenue from these activities is recognized when the service is provided.

(iv) Interest income

Interest income represents the interest earned and accrued for the year on investments and staff loans. This is accounted for using the effective interest method.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.6 Special project reserve

The Special project reserve relates to funds designated for the construction of the Institute's proposed office building on the land acquired in Blantyre along Masauko Chipembere Highway.

The construction of the office building commenced in 2018 and K429 million had been spent by 31 December 2018. (refer to note 6)

4.7 Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised in the statement of financial position when the Institute becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Receivables

The Institute makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating this allowance, the Institute uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses.

The Institute assesses impairment of trade receivables on an individual basis as it has a small number of receivables and these receivables are managed on an account by account basis (i.e. individually).

Payables

Payables are initially measured at fair value and are subsequently measured at amortized cost using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

4 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4.8 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), is recognized in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognized as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

Defined contribution plans

The Institute has a defined contributions pension scheme administered by Old Mutual Life Assurance Company (Malawi) Limited. The scheme is a contributory scheme to which both the employer and employee contribute.

Contributions by the Institute into the scheme are expensed in the period in which they are incurred. The Institute has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and past periods.

4.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Costs, including an appropriate portion of the direct variable and indirect costs, are assigned to inventories by the method most appropriate to the particular class of inventory, with the majority being valued on an actual cost basis.

Net realisable value represents the estimated selling price for inventories less all estimated costs necessary to make them saleable.

4.10 Provisions

Provisions are recognized when the Institute has a present obligation (legal or constructive) as a result of past event. It is probable the Institute will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

5 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION OF UNCERTAINTY

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other services. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

5.1 Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at each reporting date, that have significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

5.1.1 Useful lives and residual values of property, plant and equipment

The entity reviews the estimated useful lives of tangible assets and assesses residual values of the assets at the end of each year and the actual results may differ from estimates.

5.1.2 Provisions

By their nature, various assumptions are applied in arriving at the carrying value of provisions that are recognized in terms of the requirements of IAS 37 Provisions, contingent liabilities and contingent assets.

5.1.3 Going concern

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realization of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

5 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION OF UNCERTAINTY

5.1 Key sources of estimation uncertainty continued

5.1.4 Financial assets

Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Institute determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Institute monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Institute's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets. No such changes were required during the periods presented.

Measurement of ECL

ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or life time ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Institute takes into account qualitative and quantitative reasonable and supportable forward looking information.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

Figures in thousands of Malawi Kwacha

6 PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings | Motor vehicles | Furniture and fixtures | Office equipment | Examination s furniture | *Work in progress | Total |
|------------------------|-----------------------|-------------------|------------------------------|---------------------|----------------------------|----------------------|---------|
| Cost | | | | | | | |
| As at 01.01.18 | 18,932 | 193,554 | 19,190 | 111,137 | 50,202 | 88,280 | 481,295 |
| Additions | - | 32,000 | 555 | 16,296 | - | 349,017 | 397,868 |
| Disposals | - | - | - | (1,254) | - | - | (1,254) |
| As at 31.12.18 | 18,932 | 225,554 | 19,745 | 126,179 | 50,202 | 437,297 | 877,909 |
| Depreciation | | | | | | | |
| As at 01.01.18 | 1,096 | 85,471 | 8,281 | 71,387 | 36,896 | - | 203,131 |
| Charge for the year | 274 | 39,530 | 1,773 | 20,732 | 3,102 | - | 65,411 |
| Disposals | - | - | - | (918) | - | - | (918) |
| As at 31.12.18 | 1,370 | 125,001 | 10,054 | 91,201 | 39,998 | - | 267,624 |
| Carrying amount | | | | | | | |
| As at 31.12.18 | 17,562 | 100,553 | 9,691 | 34,978 | 10,204 | 437,297 | 610,285 |
| Cost | | | | | | | |
| As at 01.01.17 | 18,932 | 193,554 | 18,292 | 91,563 | 44,452 | 6,173 | 372,966 |
| Additions | - | - | 898 | 19,574 | 5,750 | 82,107 | 108,330 |
| As at 31.12.17 | 18,932 | 193,554 | 19,190 | 111,137 | 50,202 | 88,280 | 481,295 |
| Depreciation | | | | | | | |
| As at 01.01.17 | 822 | 50,631 | 6,395 | 59,295 | 27,143 | - | 144,286 |
| Charge for the year | 274 | 34,840 | 1,886 | 12,092 | 9,753 | - | 58,845 |
| As at 31.12.17 | 1,096 | 85,471 | 8,281 | 71,387 | 36,896 | - | 203,131 |
| Carrying amount | | | | | | | |
| As at 31.12.17 | 17,836 | 108,083 | 10,909 | 39,750 | 13,306 | 88,280 | 278,164 |

*WIP includes expenditure related to ICAM's building project on plot No. BE 31 along Masauko Chipembere Road in Blantyre and development of an Integrated ICT System.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

Figures in thousands of Malawi Kwacha

| | 2018 | 2017 |
|--|-----------------------|-----------------------|
| 7 RECEIVABLES | | |
| Trade receivables | 41,173 | 26,557 |
| Provision for bad debts | (4,370) | (3,571) |
| | <u>36,803</u> | <u>22,986</u> |
| Staff loans and advances repayable within 1 year | 24,205 | 24,051 |
| Prepayments and other receivables | 88,012 | 68,150 |
| | <u>149,020</u> | <u>115,187</u> |
| Staff loans repayable after 1 year | 24,176 | 23,996 |
| Total receivables | <u><u>173,196</u></u> | <u><u>139,183</u></u> |
| 8 INVENTORIES | | |
| Study manuals | <u>16,167</u> | <u>47,028</u> |
| 9 CASH AND CASH EQUIVALENTS | | |
| Deposit accounts | 10,808 | 3,712 |
| Current accounts | 22,993 | 110,388 |
| Cash on hand | 5,920 | 101 |
| | <u>39,721</u> | <u>114,201</u> |
| Investment in term deposits (Note 9.1) | <u>507,607</u> | <u>858,379</u> |
| Total cash and cash equivalents as disclosed in the statement of cash flows | <u><u>547,328</u></u> | <u><u>972,580</u></u> |
| 9.1 INVESTMENTS IN TERM DEPOSITS | | |
| Alliance Capital Limited | - | 143,082 |
| CDH Asset Management | 69,477 | 178,168 |
| First Discount House | 122,767 | 160,046 |
| NBM Capital Markets | - | 418 |
| NICO Asset Managers | 99,442 | 137,833 |
| ECOBANK | - | 102,008 |
| FINCA | 104,116 | - |
| Old Mutual Investment Group Limited | <u>111,805</u> | <u>136,824</u> |
| Total investments in term deposits | <u><u>507,607</u></u> | <u><u>858,379</u></u> |

The investments earned interest at an average rate of 14% (2017: 15%). The investments were all maturing within 3 months from the year end.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

Figures in thousands of Malawi Kwacha

| | 2018 | 2017 |
|---|----------------|----------------|
| 10 PAYABLES | | |
| Payables | 44,973 | 28,520 |
| Provisions | 44,323 | 32,945 |
| Subscriptions paid in advance | 18,877 | 19,905 |
| Pending membership applications | 23,295 | 30,673 |
| ICAEW scholarship | 14,068 | 10,553 |
| Accruals and other payables (Note 11) | 95,350 | 96,174 |
| Total payables | <u>240,886</u> | <u>218,770</u> |
| 11 ACCRUALS AND OTHER PAYABLES | | |
| Amounts owing to students | 20,292 | 21,806 |
| MAB fees | 22,734 | 21,949 |
| Marking and remarking fees | 8,410 | 26,270 |
| Other accruals and payables | 43,914 | 26,149 |
| Total accruals and other payables | <u>95,350</u> | <u>96,174</u> |
| 12 REVENUE FROM MEMBERS | | |
| Annual subscriptions | 283,107 | 222,508 |
| Membership applications | 17,009 | 21,473 |
| Revenue from the Institute's income generating activities | | |
| - Advertising | 2,850 | 5,800 |
| - Lake conference | | |
| (i) Revenue from partners | 90,580 | 41,356 |
| (ii) Revenue from participants | 366,752 | 317,938 |
| - Other CPD activities | 129,334 | 103,161 |
| Dinner dance | 8,726 | 10,955 |
| Sale of handbooks | 1,051 | 6,074 |
| Total revenue from members | <u>899,409</u> | <u>729,265</u> |
| 13 REVENUE FROM EXAMINATIONS | | |
| ACCA examinations handling | 7,970 | 8,374 |
| Annual subscriptions from students | 62,553 | 74,996 |
| Certifying statement and transcript production | 2,423 | 2,453 |
| Examinations fees | 482,431 | 489,990 |
| Identity card replacement | 1,628 | 1,849 |
| Registration and exemptions | 84,035 | 108,824 |
| Student manuals | 5,959 | 94,439 |
| Total revenue from examinations | <u>646,999</u> | <u>780,925</u> |

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

Figures in thousands of Malawi Kwacha

| | 2018 | 2017 |
|---|----------------|----------------|
| 14 MEMBERS EXPENSES | | |
| Cost of handbooks | 635 | 4,779 |
| Expenses incurred on the Institute activities | | |
| - Lake conference expenses | 315,085 | 211,159 |
| - Other CPD activities | 118,303 | 66,296 |
| Dinner dance expenses | 7,801 | 9,567 |
| Members' magazines | 13,943 | 16,830 |
| Members events | 8,646 | 5,295 |
| Postage and delivery | 3,048 | 935 |
| Total members expenses | <u>467,461</u> | <u>314,861</u> |
| 15 EXAMINATIONS EXPENSES | | |
| Examination and assessors fees | 22,426 | 20,412 |
| Examination supervision | 8,192 | 6,428 |
| Hire of examination halls | 6,925 | 8,715 |
| ICAEW exam expenses | 38,492 | 45,975 |
| ID production | 6,578 | 3,145 |
| Invigilation fees | 6,387 | 6,354 |
| Marking fees | 27,817 | 26,887 |
| Moderation fees | 12,006 | 12,206 |
| Postage and delivery | 23,605 | 18,103 |
| PQ subsidy -ICAEW manuals | 6,192 | 13,320 |
| Printing and stationery | 21,794 | 10,860 |
| Prize giving ceremony | 1,618 | 135 |
| Re-marking fees | 390 | 368 |
| Research and test development | 3,896 | - |
| Student magazine | 14,507 | 21,858 |
| Student manuals | 6,740 | 59,041 |
| Syllabus review and pilot papers | 5,301 | 9,098 |
| Training of examiners and assessors | - | 7,415 |
| Training of tuition providers | 11,317 | - |
| Total examination expenses | <u>224,183</u> | <u>270,320</u> |
| 16 SUNDRY INCOME | | |
| Miscellaneous income | 10,362 | 4,058 |
| Profit on sale of property, plant and equipment | 682 | - |
| Total sundry income | <u>11,044</u> | <u>4,058</u> |

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

Figures in thousands of Malawi Kwacha

| | 2018 | 2017 |
|---|----------------|----------------|
| 17 MAB FEES | | |
| Portion of members fees | 29,023 | 29,023 |
| Portion of students fees | 101,722 | 100,677 |
| Total MAB fees | <u>130,745</u> | <u>129,700</u> |
| <p>ICAM members contribute 15% of subscription fees and ICAM contributes 15% of students' fees to Malawi Accountants Board (MAB).</p> | | |
| 18 ADMINISTRATION EXPENSES | | |
| AGM expenses | 1,956 | 2,597 |
| Auditor's remuneration | 7,771 | 6,497 |
| Bad debts - allowance for expected credit losses | 4,370 | 3,571 |
| Bank charges | 3,436 | 2,711 |
| Casual labour | 49 | 105 |
| Corporate social responsibility | 1,664 | 1,123 |
| Depreciation | 65,412 | 58,844 |
| Genset expenses | 4,352 | 25 |
| Hennox Mazengela - award | 1,500 | 1,500 |
| Insurance | 23,045 | 19,515 |
| Legal expenses | 1,351 | 3,733 |
| Marketing | 35,645 | 45,121 |
| Motor vehicle fuel | 13,095 | 10,622 |
| Motor vehicle repairs and maintenance | 13,557 | 9,719 |
| Office cleaning expenses | 4,221 | 4,567 |
| Office supplies | 739 | 532 |
| Printing and stationery | 11,666 | 8,070 |
| Recruitment | 12 | 6,272 |
| Rent | 33,566 | 30,676 |
| Repairs and maintenance | 7,718 | 8,274 |
| Security | 16,520 | 14,223 |
| Stock write off | 28,038 | 2,258 |
| Strategic planning | 7,724 | 6,540 |
| Subscriptions | 19,002 | 12,027 |
| Telephone and internet | 8,958 | 10,309 |
| Travelling | 73,328 | 54,230 |
| Uniforms | 141 | 79 |
| Utilities | 5,093 | 4,596 |
| Total administration expenses | <u>393,929</u> | <u>328,336</u> |

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

Figures in thousands of Malawi Kwacha

| | 2018 | 2017 |
|---|----------------|----------------|
| 19 COUNCIL AND COMMITTEE EXPENSES | | |
| Committee meetings | 12,284 | 17,513 |
| Council expenses | 14,788 | 12,720 |
| Total council and committee expenses | <u>27,072</u> | <u>30,233</u> |
| 20 PERSONNEL EXPENSES | | |
| Air time for staff | 6,482 | 5,907 |
| Fringe benefits tax | 18,624 | 12,522 |
| Fuel allowance | 7,018 | 6,497 |
| Gratuity | 19,444 | 11,862 |
| Leave grant | 531 | 624 |
| Medical expenses | 14,396 | 9,456 |
| Pension | 62,848 | 53,165 |
| Salaries and wages | 359,956 | 290,966 |
| School fees allowance | 12,217 | 4,410 |
| Staff training | 15,228 | 8,776 |
| Staff welfare | 5,244 | 5,684 |
| Subsistence allowance | 2,338 | 1,944 |
| Team building | 7,320 | 11,383 |
| Tevet levy | 3,600 | 2,909 |
| Total personnel expenses | <u>535,246</u> | <u>426,105</u> |
| 21 INVESTMENT INCOME | | |
| Bank interest - call and current accounts | 397 | 579 |
| Interest on short term investments | 105,782 | 167,049 |
| Interest on staff loans | 3,346 | 2,947 |
| Total investment income | <u>109,525</u> | <u>170,575</u> |

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Figures in thousands of Malawi Kwacha

22 FINANCIAL RISK MANAGEMENT

The Council members have overall responsibility for the establishment and oversight of the Institute's risk management framework. The Council members are responsible for developing and monitoring the Institute's risk management policies in their specified areas.

The Institute's risk management policies are established to identify and analyse the risk faced by the Institute, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

The Council members are responsible for monitoring compliance with the Institute's management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Institute.

The Institute's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Institute's financial performance.

The Institute manages its general financial risk through its investment policy. The Institute has a policy of spreading its investment across a wide range of investment houses such that no single investment exceeds 25% of the total investments.

22.1 Fair value measurements

This note provides information about how the Institute determines fair values of various financial assets and financial liabilities.

Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required).

The Council members consider that the carrying amounts of financial assets and financial liabilities recognized in the financial statements approximate their fair values.

22.2 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities to meet financial obligations. The Institute's approach is to ensure that it will always have sufficient liquidity to meet its obligations as they fall due.

The Institute's risk to liquidity is a result of the funds available to cover future commitments. The Institute manages liquidity risk through an ongoing review of future commitments and credit facilities.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

Figures in thousands of Malawi Kwacha

22 FINANCIAL RISK MANAGEMENT

22.3 Credit risk

Impairment of financial assets

The Institute recognises a loss allowance for expected credit losses on trade receivables and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Institute always recognises lifetime ECL for trade receivables and contract assets. The expected credit losses on these financial assets are estimated based on the Institute's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate.

Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Institute compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Institute considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. Forward-looking information considered includes the future prospects of the industries in which the Institute's debtors operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations.

Despite the foregoing, the Company assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if:

- (1) The financial instrument has a low risk of default,
- (2) The debtor has a strong capacity to meet its contractual cash flow obligations in the near term, and
- (3) Adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Institute considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition or if an external rating is not available, the asset has an internal rating of 'performing'. Performing means that the counterparty has a strong financial position and there is no past due amounts.

Measurement and recognition of expected credit losses

The measurement of expected credit losses is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

Figures in thousands of Malawi Kwacha

22 FINANCIAL RISK MANAGEMENT - CONTINUED

22.3 Credit risk - continued

The Institute does not provide any services on credit except advertisement in the ICAM and Student Magazine and student manual distribution. The Institute faces a credit risk from the various financial institutions with which it invests funds in the event of financial failure of these institutions. The Institute manages this risk by investing in reputable financial institutions only and ensuring that the investment is spread across a number of Institutions.

| Exposure to credit risk | 2018 | 2017 |
|-----------------------------------|----------------|----------------|
| Receivables | | |
| Trade Receivables | 41,173 | 26,557 |
| Staff loans and advances | 48,381 | 48,047 |
| Prepayments and other receivables | 88,012 | 68,150 |
| | <u>177,566</u> | <u>142,754</u> |

The ageing of receivables at the statement of financial position date was:-

| | | |
|-------------------------|---------------|---------------|
| Not past due | 12,162 | 3,437 |
| Past due 0 - 30 days | - | 345 |
| Past due 31 - 120 days | 9,449 | 12,753 |
| Past due 121 - 360 days | 19,563 | 10,023 |
| | <u>41,173</u> | <u>26,557</u> |

Impairment

The Institute applied IFRS 9 to establish an allowance for impairment losses on trade receivables. IFRS 9 introduces a new impairment model that requires the recognition of expected credit losses on financial assets assessed on account by account basis. In contrast, the IAS 39 impairment allowance assessment was based on an incurred loss model, and measured on trade receivables where there was objective evidence that loss has been incurred.

The following is the movement in the allowance for impairment losses on trade receivables during the year:

| | | |
|---|----------------|----------------|
| Gross exposure (Trade receivables) | 41,173 | 26,557 |
| Movement in allowance for impairment losses: | | |
| Opening balance | 3,571 | 538 |
| Write offs | (3,571) | (538) |
| 2018 Additions: impairment losses as a result of adoption of IFRS 9 (there was no significant impact on the 2018 re-assessment) | (4,370) | (3,571) |
| Closing balance - allowance for impairment losses | <u>(4,370)</u> | <u>(3,571)</u> |
| Balance as at 31 December 2018 | <u>36,803</u> | <u>22,986</u> |

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

Figures in thousands of Malawi Kwacha

22 FINANCIAL RISK MANAGEMENT - CONTINUED

22.4 Market risk

Market risk is the risk that the Institute's income or the value of its holdings of financial instruments would be affected by changes in market fundamentals such as foreign exchange rate and interest rates.

The Institute has limited exposure to foreign exchange rates as it mainly transacts in the local currency.

The Institute has adopted a policy of investing its excess liquidity in various investment houses. In investing excess liquidity the Institute endeavours to invest in most rewarding investment opportunities. Falling interest rates, however, pose a significant risk towards the interest income which has always been a significant stream of income.

As the Institute has significant interest-bearing assets, the Institute's income and operating cash flows are substantially dependent on changes in market interest rates. Movements in interest rates are likely to have a significant impact on one of the Institute's investment income line. The Institute manages this risk by investing in investments which have highest earning potential. Refer note 9.1 for applicable interest rates.

The Council members will continue to explore how best to optimize from investments.

Indicated below is interest earned from short term investments;

| | 2018 | 2017 |
|-----------------|----------------|----------------|
| Interest income | <u>109,525</u> | <u>170,575</u> |

Interest expense on financial liabilities: -

The Institute does not have any financial liabilities that necessitate payment of interest expense.

23 CAPITAL COMMITMENTS

There were non-contractual capital commitments of K36 million (2017: K468 million) and a contractual commitment of K662 million as at 31 December 2018 (2017: K942 million).

24 EVENTS AFTER THE REPORTING PERIOD

There are no events subsequent to year end requiring disclosures in or adjustment to the financial statements.

25 INCOME TAX

Due to the nature of its business, the Institute is exempt from income tax in terms of paragraph b(iii) of the First Schedule to the Taxation Act.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

Figures in thousands of Malawi Kwacha

26 EXCHANGE RATES AND INFLATION

National inflation and exchange rates as at 31 December were as follows:

| | 2018 | 2017 |
|--|-------------|-------------|
| National inflation rates. <i>Source: National Statistics Office</i> | 9.1% | 7.1% |
| The mid exchange rate of the Malawi Kwacha to the United States Dollar was | <u>730</u> | <u>726</u> |

At the date of approval of the financial statements the rates had not moved as discussed below:-

| | | |
|------------------|------------|------------|
| Kwacha/US Dollar | <u>730</u> | <u>726</u> |
|------------------|------------|------------|