

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

**FINANCIAL STATEMENTS FOR THE  
YEAR ENDED**

**31 DECEMBER 2019**

**THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI**

**FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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<b>Contents</b>	<b>Page</b>
Council report	1 - 3
Statement of Council members' responsibilities	4 - 5
Independent auditor's report	6 - 8
Statement of financial position	9
Statement of comprehensive income	10
Statement of changes in reserves	11
Statement of cash flows	12
Notes to the financial statements	13 - 30

# **THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI**

## **FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019**

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### **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 2019**

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### **1. Incorporation**

ICAM 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. Principal activities 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 principal 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 2019 the Institute had 2,292 active members (2018: 2,012 members) and 6,169 active students (2018: 5,689 students) on its register.

### **3. Financial performance**

The Institute made a deficit for the year of K109 million (2018: K112 million). Total reserves were K996 million as at 31 December 2019 (2018: K1,106 million). The current liabilities exceeded the current assets by K420 million as at 31 December 2019. The Council is aware of this liquidity gap and the challenges that have resulted in the Institute to report a deficit in the current year and has put in place measures to turn around the situation whilst taking into account the nature of the Institute's business and mandate. The Council therefore, strongly believes that the Institute is a going concern for the foreseeable future. The preparation of the financial statements on a going concern basis is therefore appropriate.

### **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 2019

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### 5. Council members

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

<b>Name</b>	<b>Period served</b>
Mr. Joel Mwenelupembe (President)	Jan to Dec 2019
Mrs. Phyles Kachingwe (Vice President)	Jan to Dec 2019
Mrs. Madalo Mwenelupembe	Jan to Dec 2019
Mr. Peter Chetama	Jan to Dec 2019
Mr. Moffat Ngalande	Jan to Dec 2019
Mrs. Hilda Singo	Jan to Dec 2019
Mr. Daniel Jere	Jan to Dec 2019
Mrs. Victoria Munkhondya	Jan to Dec 2019
Mr. James Kamsesa	Jan to Dec 2019
Mr. David Mhango	Jan to Sep 2019
Mr. Samuel Yakobe	Jan to Sep 2019
Mr. Kezzie Mkandawire	Jan to Sep 2019
The Accountant General (Ex officio)	Jan to Dec 2019
The Auditor General (Ex officio)	Jan to Dec 2019
Mrs. Dalitso Gadama	Sep to Dec 2019
Mr. Stephenson Kamphasa	Sep to Dec 2019
Mr. Fraser Chipala	Sep to Dec 2019

### 6. Secretary

Dr. Francis Chinjoka Gondwe

### 7 Registered office and principal place of business

ICAM House,  
Plot No BE431, Chipembere Highway  
P.O. Box 1,  
Blantyre  
Malawi

### 8 Independent auditor

Graham Carr,  
P.O. Box 1411,  
Blantyre.

Graham Carr have expressed interest to continue in office in accordance with section 231(1) of the Companies Act, 2013 and a proposal will be made at the Institute's Annual General Meeting to re-appoint them as auditors of the ensuing year.

# THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

## COUNCIL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

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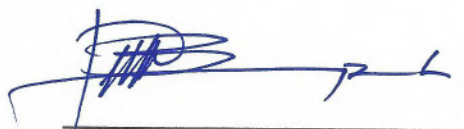
### 9 Principal bankers

National Bank of Malawi  
Victoria Avenue Service Centre  
P.O. Box 947  
Blantyre

First Capital Bank  
Blantyre Branch  
Private Bag 122  
Blantyre

### 10 Legal advisers

Excellence Law Partners  
CFAO Complex  
Top Mandala, Kaohsiung Road  
Blantyre

  
\_\_\_\_\_  
**President**  
\_\_\_\_\_  
**Chairperson- Audit Committee**

## **THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI**

### **STATEMENT OF COUNCIL MEMBERS' RESPONSIBILITIES FOR THE YEAR ENDED 31 DECEMBER 2019**

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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 internal 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 that 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 endeavors to minimize it by ensuring that appropriate infrastructure, controls, systems and ethical behavior 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 2020 and the current financial position; they are satisfied that the Institute will continue in operational existence for the foreseeable future. The Council is aware of the challenges that have resulted in the Institute to report a deficit in the current year and has put in place measures to turn around the situation. Some of the strategies that have been put in place include the following:

- Increasing the number of CPD events per year through organising additional trainings outside the CPD calendar. These include industry specific trainings targeting different segments of the membership;
- Mandatory membership registration of accountants: the number of members continue to increase, however, given that registration of accountants is mandatory, there is great opportunity to increase the numbers further. It is estimated that there are about 10,000 members out there and so the current membership at 2,292 means that more and more can be recruited;
- The Government has committed to registering all its accountants who are not yet registered (1,183 accountants) by December 2020;



## THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

### STATEMENT OF COUNCIL MEMBERS' RESPONSIBILITIES FOR THE YEAR ENDED 31 DECEMBER 2019

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- ICAM has made an arrangement with a professional accountancy body to transfer 2,600 who can be eligible to take ICAM examinations;
- The Institute has changed focus in the recruitment of students from Certificate in Financial Accounting (CIFA) and Technician Diploma students to Chartered Accountant (CA) students (i.e. the ones who graduate with degrees and diplomas). This is due to the downward trend year on year on the number of student registering and taking examination in the two categories as a result of the competition being faced with the coming in of private Universities. Therefore, the Institute is also focusing on conducting career talks aimed at promoting the CA qualification in Universities and colleges. These graduates join the Institute both as a member and student which in turn increases revenue;
- Revenue diversification through ICAM's diversification plan;
- Improving education and examination processes through the introduction of Item Bank and Central Marking Projects which will be introduced in phases in 2020. Once implemented, the Item Bank will see exams being written four times in a year. This is likely to improve the cash flow of the Institute. The Central Marking Project should result in efficiencies in marking exams and reduce the time that is taken from writing exams to releasing them;
- Enhancing the Institute's marketing drive and communication to members by highlighting the membership value proposition.

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 6 to 8.

The financial statements set out on pages 9 to 30 were authorized for issue by the Council on 20 March 2020 and are signed on its behalf by:

  
\_\_\_\_\_  
President  
\_\_\_\_\_  
Chairperson- Audit Committee



## **INDEPENDENT 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 2019, and the statement of comprehensive income, the statement of changes in reserves and the 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 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and the Companies Act, 2013.

### **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.

### **Key audit matter**

A key audit matter is a matter that, in our professional judgement, was of most significance in our audit of the financial statements of the current period. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter. We have determined the matter described below to be the key audit matter to be communicated in our report.

### **Going concern assessment**

The Institute incurred a deficit of K109 million during the year ended 31 December 2019 (2018: K112 million), and as of that date current liabilities exceeded its total current assets by K420 million (2018: K472 million, current assets).

We considered this a key audit matter as it affected the going concern of the Institute, and the subsequent action taken by the Institute to reverse the situation.

### **How the matter was addressed in the audit**

We obtained cash flow and profit projections for the year ending 31 December 2020 and:

- Considered whether projections are likely to be reliable by comparing projections for previous years with actual out turn;
- Considered the adequacy of working capital resources to maintain projected levels of operation;

Audit . Tax . Accounting . Advisory

Partners: D.Ngwira (Mrs), C.M.C Banda

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

### **How the matter was addressed in the audit - continued**

- Ensured projected peak cash requirements are matched by available resources as and when they arise;
- Checked whether sufficient provision for contingencies has been incorporated into the projections;
- Considered the applicability of the bases and assumptions used;

We also obtained sufficient information and evidence, how management intends to ensure that the Institute would be able to continue as a going concern.

We found that the going concern assumption was appropriate for the preparation of the financial statements. Furthermore, we found that appropriate disclosure has been made in the financial statements with respect to this matter, as per note 24.

### **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.

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.



## INDEPENDENT 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

- 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 entities 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.

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: \_\_\_\_\_

*D. Ngwira*

Date: \_\_\_\_\_

*30 April 2020*

Audit . Tax . Accounting . Advisory

Partners: D.Ngwira (Mrs), C.M.C Banda


THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2019

Figures in thousands of Malawi Kwacha

	Note	2019	2018
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	6	1,400,650	610,285
Receivables	7	15,406	24,176
<b>Total non-current assets</b>		<u>1,416,056</u>	<u>634,461</u>
<b>Current assets</b>			
Inventories	8	13,328	16,167
Receivables	7	93,153	149,020
Cash and cash equivalents	9	21,301	547,328
<b>Total current assets</b>		<u>127,782</u>	<u>712,515</u>
<b>Total assets</b>		<u>1,543,838</u>	<u>1,346,976</u>
<b>RESERVES AND LIABILITIES</b>			
<b>Reserves</b>			
Special project reserve		1,098,048	1,100,000
Accumulated (deficit)/surplus		(102,471)	6,090
<b>Total reserves</b>		<u>995,577</u>	<u>1,106,090</u>
<b>Current liabilities</b>			
Payables	10	548,261	240,886
<b>Total current liabilities</b>		<u>548,261</u>	<u>240,886</u>
<b>Total reserves and liabilities</b>		<u>1,543,838</u>	<u>1,346,976</u>

The financial statements were authorized for issue by the Council on 20 MARCH 2020 and were signed on its behalf by :

  
\_\_\_\_\_  
President

  
\_\_\_\_\_  
Chairperson- Audit Committee

The notes on pages 13 to 30 form part of these financial statements  
Independent Auditor's Report - Page 6 to 8

**THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI**

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 31 DECEMBER 2019**

*Figures in thousands of Malawi Kwacha*

	<b>Note</b>	<b>2019</b>	<b>2018</b>
<b>Revenue</b>			
Revenue from members	11	1,060,761	899,409
Revenue from examinations	12	<u>632,862</u>	<u>646,999</u>
<b>Total revenue</b>		<u>1,693,623</u>	<u>1,546,408</u>
<b>Direct expenses</b>			
Members expenses	13	502,500	467,461
Examinations expenses	14	<u>255,278</u>	<u>224,183</u>
<b>Total direct expenses</b>		<u>757,778</u>	<u>691,644</u>
Revenue for specific purposes	15	815	-
Sundry income	16	<u>3,612</u>	<u>11,044</u>
<b>Total sundry income</b>		<u>4,427</u>	<u>11,044</u>
<b>Surplus before operating expenses</b>		<u>940,272</u>	<u>865,808</u>
<b>Operating expenses</b>			
MAB fees	17	130,190	130,745
Expenses for specific purposes	18	640	-
Administration expenses	19	374,749	393,929
Committee and Council expenses	20	36,994	27,072
Personnel expenses	21	<u>542,464</u>	<u>535,246</u>
<b>Total operating expenses</b>		<u>1,085,037</u>	<u>1,086,992</u>
<b>Deficit before financing income and exchange losses</b>		<u>(144,765)</u>	<u>(221,184)</u>
<b>Financing income</b>			
Exchange loss		(1,157)	(435)
Investment income	22	<u>37,361</u>	<u>109,525</u>
<b>Deficit for the year</b>		<u><u>(108,561)</u></u>	<u><u>(112,094)</u></u>

*The notes on pages 13 to 30 form part of these financial statements  
Independent Auditor's Report - Page 6 to 8*

**THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI**

**STATEMENT OF CHANGES IN RESERVES  
FOR THE YEAR ENDED 31 DECEMBER 2019**

*Figures in thousands of Malawi Kwacha*

	<b>Special project reserve</b>	<b>Accumulated Surplus</b>	<b>Total</b>
<b>Balance at 1 January 2018</b>	1,100,000	118,184	1,218,184
Deficit for the year	-	(112,094)	(112,094)
<b>Balance at 31 December 2018</b>	<u>1,100,000</u>	<u>6,090</u>	<u>1,106,090</u>
Amortization	(1,952)	-	(1,952)
Deficit for the year	-	(108,561)	(108,561)
<b>Balance at 31 December 2019</b>	<u>1,098,048</u>	<u>(102,471)</u>	<u>995,577</u>

Please refer to note 4.6 on page 17 for a detailed description of the reserve.



**THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

*Figures in thousands of Malawi Kwacha*

	<b>Note</b>	<b>2019</b>	<b>2018</b>
<b>Cash flow from operating activities</b>			
<b>Deficit for the year</b>		<u>(108,561)</u>	<u>(112,094)</u>
Adjustment for:-			
Depreciation	6	44,941	65,412
Amortization income of special project reserve		(1,952)	-
Interest received	22	(37,361)	(109,525)
Profit on disposal		<u>(100)</u>	<u>(682)</u>
		(103,033)	(156,889)
<b>Movements in working capital</b>			
Decrease in inventories	8	2,839	30,861
Decrease/(increase) in receivables	7	64,637	(34,013)
Increase in payables	10	<u>307,375</u>	<u>22,116</u>
<b>Net cash generated from/(used in) operating activities</b>		<u>271,818</u>	<u>(137,925)</u>
<b>Cash flows from investing activities</b>			
Interest received	22	37,361	109,525
Purchase of plant and equipment	6	(839,064)	(397,868)
Proceeds from disposal of equipment		<u>3,858</u>	<u>1,016</u>
<b>Net cash used in investing activities</b>		<u>(797,845)</u>	<u>(287,327)</u>
<b>Net decrease in cash and cash equivalents</b>		<u>(526,027)</u>	<u>(425,252)</u>
Cash and cash equivalents at the beginning of the year		<u>547,328</u>	<u>972,580</u>
<b>Cash and cash equivalents at the end of the year</b>	9	<u><u>21,301</u></u>	<u><u>547,328</u></u>
<b>Additional information</b>			
Net movement in working capital (as defined by legislation)		<u>(892,108)</u>	<u>(444,384)</u>
At the end of the year		<u>(420,479)</u>	<u>471,629</u>
At the beginning of the year		<u>471,629</u>	<u>916,013</u>

*The notes on pages 13 to 30 form part of these financial statements  
Independent Auditor's Report - Page 6 to 8*

# THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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### 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. These financial statements have also been prepared on the historical cost convention basis. 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 adopted new and revised Standards and Interpretations issued by the International Accounting Standards Board and International Financial Reporting Interpretations Committee of the International Accounting Standards Board that are relevant to its operations and are effective for annual reporting periods beginning 1 January 2019. The changes did not have a material impact on the Institute's financial performance/statements.

#### New and revised IFRSs adopted

- |  |  |
|--|--|
| <b>a IFRS 16 Leases</b>                                  | 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. |
| <b>b IFRIC 23 Uncertainty over Income Tax Treatments</b> | 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.  |
| <b>c IAS 23 Borrowing costs</b>                          | 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.   |

## THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

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

##### **3.2 Standards and Interpretations in issue not yet adopted**

<i>Amendments to IAS 1 and IAS 8</i>	The amendments in definition of material (Amendments to IAS 1 and IAS 8) clarify the definition of 'material' and align the definition used in the Conceptual Framework and the standards. Effective for annual reporting periods beginning on or after 1 January 2020.
<i>Conceptual framework in IFRS Standards</i>	Issued in March 2018. These 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.

#### **4.0 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 statement of comprehensive income.

##### **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.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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**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 statement of comprehensive income 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 statement of comprehensive income.

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).

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019

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**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 held 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 credited 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 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 2019

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#### 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 office building on the land acquired in Blantyre along Masauko Chipembere Highway.

The construction of the office building phase one was completed and the Institute occupied the building on 14 December 2019. The total cost of phase one of the building was K1,171 million as at 31 December 2019, (refer to note 6). The reserve will be amortised so that the depreciation of the asset charged in the statement of comprehensive income is funded by amortisation of the reserve.

##### 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, 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 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.



NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019

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**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 releasable value. Costs, including an appropriate portion of the fixed and variable overhead expenses, are assigned to inventories by the method most appropriate to the particular class of inventory, with the majority being valued on an average costing basis.

Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

**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.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

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**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 tangible assets**

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. Refer to note 24 for more information on going concern.

THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019

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
<b>Cost</b>							
As at 01.01.19	18,932	225,554	19,745	126,179	50,202	437,297	877,909
Additions	-	5,719	6,078	54,540	-	772,726	839,064
Transfers	1,171,407	-	-	-	-	(1,171,407)	-
Disposals	-	(31,332)	-	(1,321)	-	-	(32,653)
As at 31.12.19	<u>1,190,339</u>	<u>199,941</u>	<u>25,823</u>	<u>179,398</u>	<u>50,202</u>	<u>38,616</u>	<u>1,684,320</u>
<b>Depreciation</b>							
As at 01.01.19	1,370	125,001	10,054	91,201	39,998	-	267,624
Charge for the year	2,226	35,900	1,849	4,036	1,136	-	45,148
Disposals	-	(28,405)	-	(697)	-	-	(29,102)
As at 31.12.19	<u>3,596</u>	<u>132,496</u>	<u>11,903</u>	<u>94,540</u>	<u>41,134</u>	<u>-</u>	<u>283,670</u>
<b>Carrying amount</b>							
As at 31.12.19	<u>1,186,743</u>	<u>67,445</u>	<u>13,921</u>	<u>84,858</u>	<u>9,068</u>	<u>38,616</u>	<u>1,400,650</u>
<b>Cost</b>							
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	<u>18,932</u>	<u>225,554</u>	<u>19,745</u>	<u>126,179</u>	<u>50,202</u>	<u>437,297</u>	<u>877,909</u>
<b>Depreciation</b>							
As at 01.01.18	1,096	85,471	8,281	71,387	36,896	-	203,131
Disposals	274	39,530	1,773	20,732	3,102	-	65,411
Charge for the year	-	-	-	(918)	-	-	(918)
As at 31.12.18	<u>1,370</u>	<u>125,001</u>	<u>10,054</u>	<u>91,201</u>	<u>39,998</u>	<u>-</u>	<u>267,624</u>
<b>Carrying amount</b>							
As at 31.12.18	<u>17,562</u>	<u>100,553</u>	<u>9,691</u>	<u>34,978</u>	<u>10,204</u>	<u>437,297</u>	<u>610,285</u>

\*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.

Capital WIP	2019	2018
ICAM building Project	20,482	428,562
Integrated ICT System Development	18,134	8,735
Total WIP	<u>38,616</u>	<u>437,297</u>

**THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

*Figures in thousands of Malawi Kwacha*

	<b>2019</b>	<b>2018</b>
<b>7 RECEIVABLES</b>		
Trade receivables	51,724	41,173
Provision for bad debts	(3,552)	(4,370)
	<u>48,172</u>	<u>36,803</u>
Staff loans and advances repayable within 1 year	24,217	24,205
Prepayments and other receivables	<u>20,764</u>	<u>88,012</u>
	<u>93,153</u>	<u>149,020</u>
Staff loans repayable after 1 year	<u>15,406</u>	<u>24,176</u>
<b>Total receivables</b>	<u><u>108,559</u></u>	<u><u>173,196</u></u>
<b>8 INVENTORIES</b>		
Study manuals	<u>13,328</u>	<u>16,167</u>
<b>9 CASH AND CASH EQUIVALENTS</b>		
Deposit accounts	4,637	10,808
Current accounts	15,251	22,993
Cash on hand	<u>1,413</u>	<u>5,920</u>
	<u>21,301</u>	<u>39,721</u>
Investment in term deposits (Note 9.1)	-	<u>507,607</u>
<b>Total cash and cash equivalents as disclosed in the statement of cash flows</b>	<u><u>21,301</u></u>	<u><u>547,328</u></u>
<b>9.1 INVESTMENTS IN TERM DEPOSITS</b>		
CDH Asset Management	-	69,477
First Discount House	-	122,767
NICO Asset Managers	-	99,442
FINCA	-	104,116
Old Mutual Investment Group Limited	<u>-</u>	<u>111,805</u>
<b>Total investments in term deposits</b>	<u><u>-</u></u>	<u><u>507,607</u></u>

The investments earned interest at an average rate of 10% (2018: 14%). The investments in 2018 were all maturing within 3 months as at year end.

**THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

*Figures in thousands of Malawi Kwacha*

	<b>2019</b>	<b>2018</b>
<b>10 PAYABLES</b>		
Payables	195,955	44,973
Provisions	76,657	44,323
Subscriptions paid in advance	52,113	18,877
Pending membership applications	37,484	23,295
ICAEW scholarship	16,584	14,068
Amounts owing to students	30,240	20,292
MAB fees	33,068	22,734
Marking and remarking fees	8,571	8,410
Accruals	97,589	43,914
<b>Total payables</b>	<b>548,261</b>	<b>240,886</b>
<b>10.1 Provisions</b>		
Provisions as at 1 January	44,323	32,945
Additions	110,930	64,780
Amounts used	(78,595)	(53,402)
<b>Provisions as at 31 December</b>	<b>76,657</b>	<b>44,323</b>
<p>This includes a provision of MK50 million for possible costs relating to a legal case. The Institute has estimated the obligation that is sufficiently reliable to use in recognizing this provision based on the calculation of damages should the case not go in the Institute's favour. The outcome of the court ruling will determine the eventual liability and financial impact of the case for the Institute and it is probable that that an outflow of resources embodying benefits used to settle the obligation will in fact result.</p>		
<b>11 REVENUE FROM MEMBERS</b>		
Annual subscriptions	298,674	283,107
Membership applications	29,330	17,009
Revenue from the Institute's activities		
- Advertising	534	2,850
- Lake conference		
(i) Revenue from partners	80,000	90,580
(ii) Revenue from participants	509,033	366,752
- Other CPD activities	133,816	129,334
Dinner dance	8,816	8,726
Sale of handbooks	558	1,051
<b>Total revenue from members</b>	<b>1,060,761</b>	<b>899,409</b>



**THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

*Figures in thousands of Malawi Kwacha*

	<b>2019</b>	<b>2018</b>
<b>12 REVENUE FROM EXAMINATIONS</b>		
ACCA examinations handling	7,221	7,970
Annual subscriptions from students	53,790	62,553
Certifying statement and transcript production	3,154	2,423
Examinations fees	475,910	482,431
Identity card replacement	1,210	1,628
Registration and exemptions	84,201	84,035
Student manuals	7,376	5,959
<b>Total revenue from examinations</b>	<b>632,862</b>	<b>646,999</b>
<b>13 MEMBERS EXPENSES</b>		
Cost of handbooks	-	635
Expenses from Institute activities		
- Lake conference expenses	379,322	315,085
- Other CPD activities	93,551	118,303
Dinner dance expenses	10,869	7,801
Members' magazines	2,430	13,943
Members events	11,082	8,646
Postage and delivery	5,246	3,048
<b>Total members expenses</b>	<b>502,500</b>	<b>467,461</b>
<b>14 EXAMINATION EXPENSES</b>		
Examination and assessors fees	22,886	22,426
Examination supervision	8,549	8,192
Hire of examination halls	7,810	6,925
ICAEW exam expenses	51,182	38,492
ID production	4,554	6,578
Invigilation fees	6,701	6,387
Marking fees	29,568	27,817
Moderation fees	13,169	12,006
Postage and delivery	29,155	23,605
PQ subsidy -ICAEW manuals	9,252	6,192
Printing and stationery	15,814	21,794
Prize giving ceremony	2,311	1,618
Re-marking fees	-	390
Research and test development	4,101	3,896
<b>Balance carried forward</b>	<b>205,052</b>	<b>186,318</b>



**THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

*Figures in thousands of Malawi Kwacha*

	2019	2018
<b>14 EXAMINATION EXPENSES</b>		
Balance brought forward	205,052	186,318
Student magazine	2,336	14,507
Student manuals	6,934	6,740
Syllabus review and pilot papers	34,485	5,301
Training of examiners and assessors	972	-
Training of tuition providers	5,499	11,317
<b>Total examination expenses</b>	<b>255,278</b>	<b>224,183</b>
<b>15 REVENUE FOR SPECIFIC PURPOSES</b>		
Donation (flood relief)	815	-
<b>Total revenue for specific purposes</b>	<b>815</b>	<b>-</b>
<b>16 SUNDRY INCOME</b>		
Miscellaneous income	742	10,362
Amortized - Special Project Reserve earnings	1,952	-
Profit on sale of asset	918	682
<b>Total sundry income</b>	<b>3,612</b>	<b>11,044</b>
<b>17 MAB FEES</b>		
Portion of members fees	38,818	29,023
Portion of students fees	91,372	101,722
<b>Total MAB fees</b>	<b>130,190</b>	<b>130,745</b>
ICAM members contribute 15% of subscription fees and ICAM contributes 15% of students' fees to Malawi Accountants Board (MAB).		
<b>18 EXPENSES FOR SPECIFIC PURPOSES</b>		
Donation	640	-
<b>Total expenses for specific purposes</b>	<b>640</b>	<b>-</b>
<b>19 ADMINISTRATION EXPENSES</b>		
AGM expenses	2,612	1,956
Auditor's remuneration	11,758	7,771
Bad debts - write offs	-	4,370
Bank charges	3,666	3,436
Casual labour	28	49
<b>Balance carried forward</b>	<b>18,064</b>	<b>17,582</b>

# THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Figures in thousands of Malawi Kwacha

	2019	2018
<b>19 ADMINISTRATION EXPENSES</b>		
Balance brought forward	18,064	17,582
Corporate social responsibility	2,526	1,664
Depreciation	44,941	65,412
Genset expenses	1,557	4,352
Hennox Mazengela - award	-	1,500
Insurance	22,408	23,045
Legal expenses	55,191	1,351
Marketing	47,270	35,645
Motor vehicle expenses	22,527	26,652
Office cleaning expenses	6,304	4,221
Office supplies	965	739
Printing and stationery	10,760	11,666
Recruitment	348	12
Rent	36,432	33,566
Repairs and maintenance	7,513	7,718
Security	18,961	16,520
Stock write off	307	28,038
Strategic planning	-	7,724
Subscriptions	31,161	19,002
Telephone and internet	8,598	8,958
Travelling	33,169	73,328
Uniforms	-	141
Utilities	5,747	5,093
<b>Total administration expenses</b>	<b>374,749</b>	<b>393,929</b>
<b>20 COUNCIL AND COMMITTEE EXPENSES</b>		
Committee meetings	18,569	12,284
Council expenses	18,425	14,788
<b>Total council and committee expenses</b>	<b>36,994</b>	<b>27,072</b>
<b>21 PERSONNEL EXPENSES</b>		
Medical expenses	17,096	14,396
Pension	62,857	62,848
Salaries and wages	369,939	359,956
Other staff costs	72,202	70,254
Staff training and development	4,295	15,228
Staff welfare	16,075	12,564
<b>Total personnel expenses</b>	<b>542,464</b>	<b>535,246</b>

# THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Figures in thousands of Malawi Kwacha

	2019	2018
<b>22 INVESTMENT INCOME</b>		
Bank interest - call and current accounts	533	397
Interest on short term investments	33,056	105,782
Interest on staff loans	<u>3,772</u>	<u>3,346</u>
<b>Total investment income</b>	<u><u>37,361</u></u>	<u><u>109,525</u></u>

### 24 GOING CONCERN ASSESSMENT

The Institute incurred a deficit of K109 million during the year ended 31 December 2019 (2018: K112 million), and as of that date current liabilities exceeded its total current assets by K420 million (2018: current assets exceeded current liabilities by K472 million). The Council put in place measures which resulted into an increase in the number of students from 5,689 in 2018 to 6,196 in 2019. However, this did not translate in an increase in revenue from students as the increase in the numbers is mainly in Certificate in Financial Accounting and Technician diploma, where as numbers have been declining in the Chartered Accountant qualification which brings in more revenue. Additionally, some of the active students did not sit for examinations in the year. Furthermore, the cash reserves had been depleted with the completion of the construction of ICAM house. The going concern of the Institute is therefore dependent on crafting student and member expansion strategies, growing other income generating activities (like CPD) within the remit of the Institute and continued monitoring and controlling of expenditure. The Council has already put in place measures (as stated below) to turn around the situation whilst taking into account the nature of the Institute's business and mandate:

- Increasing the number of CPD events per year through organising additional trainings outside the CPD calendar. These include industry specific trainings targeting different segments of the membership;
- Mandatory membership registration of accountants: the number of members continue to increase, however, given that registration of accountants is mandatory, there is great opportunity to increase the numbers further. It is estimated that there are about 10,000 members out there and so the current membership at 2,292 means that more and more can be recruited;
- The Government has committed to registering all its accountants who are not yet registered (1,183 accountants) by December 2020;
- ICAM has made an arrangement with a professional accountancy body to transfer 2,600 who can be eligible to take ICAM examinations;
- The Institute has changed focus in the recruitment of students from Certificate in Financial Accounting (CIFA) and Technician Diploma students to Chartered Accountant (CA) students (i.e. the ones who graduate with degrees and diplomas). This is due to the downward trend year on year on the number of student registering and taking examination in the two categories as a result of the competition being faced with the coming in of private Universities. Therefore, the Institute is also focusing on conducting career talks aimed at promoting the CA qualification in Universities and colleges. These graduates join the Institute both as a member and student which in turn increases revenue;
- Revenue diversification through ICAM's diversification plan;

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

*Figures in thousands of Malawi Kwacha*

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**24 GOING CONCERN ASSESSMENT - CONTINUED**

- Improving education and examination processes through the introduction of Item Bank and Central Marking Projects which will be introduced in phases in 2020. Once implemented, the Item Bank will see exams being written four times in a year. This is likely to improve the cash flow of the Institute. The Central Marking Project should result in efficiencies in marking exams and reduce the time that is taken from writing exams to releasing them;
- Enhancing the Institute's marketing drive and communication to members by highlighting the membership value proposition.

Furthermore, subsequent to the year end, the Institute managed to clear the current liabilities by K295million and net current liabilities were K229million as at 31 March 2020, the significant portion of liabilities related to the construction of the ICAM office complex.

**25 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.

**25.1 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.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2019**

*Figures in thousands of Malawi Kwacha*

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**25 FINANCIAL RISK MANAGEMENT - CONTINUED**

**25.2 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.

**25.3 Credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge the obligation. Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, amounts due from related parties as well as credit exposures to customers, including outstanding trade and other receivables. The Institute provides some services on credit mainly for advertisement in the ICAM and Student Magazine. The Council does not expect any losses from non-performance by these debtors. 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.

The Institute has two types of financial assets that are subject to the expected credit loss model:

- Trade and other receivables from sale of goods and services;
- Cash and cash equivalents.

The Institute's policy is to give 30 days for the repayment of receivables.

The Institute applies the IFRS 9 simplified approach to assess expected credit losses (ECL) which uses a lifetime expected loss allowance for all trade receivables and other receivables. To measure the expected credit losses, trade receivables and other receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles over a period of 36 months before 1 January 2019 and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Institute has identified the GDP growth rate and inflation to be the most relevant factors affecting the economy, and accordingly adjusts the historical loss rates based on expected changes in these factors.

Impairment loss was calculated using the default rate percentage based on receivable aging and these are applied to the group of financial assets using a simplified matrix.



# THE INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Figures in thousands of Malawi Kwacha

### 25 FINANCIAL RISK MANAGEMENT - CONTINUED

#### 25.3 Credit risk - continued

Exposure to credit risk Receivables by aging	Balance	2019	
		Expected credit loss	Recoverable amount
Past due 0 - 60 days	21,546	145	21,401
Past due 61 - 90 days	18,275	511	17,764
Past due 91 plus days	11,903	2,896	9,007
	<u>51,724</u>	<u>3,552</u>	<u>48,172</u>
Exposure to credit risk Receivables by aging	Balance	2018	
		Expected credit loss	Recoverable amount
Past due 0 - 60 days	12,692	89	12,603
Past due 61 - 90 days	8,919	249	8,669
Past due 91 plus days	19,563	4,032	15,531
	<u>41,173</u>	<u>4,370</u>	<u>36,803</u>
<b>Gross exposure (Trade receivables)</b>		<b>2019</b>	<b>2018</b>
Movement in allowance for impairment losses:			
Opening balance		(4,370)	3,571
Write offs		4,370	(3,571)
Additions		(3,552)	(4,370)
<b>Balance as at 31 December 2019</b>		<u>(3,552)</u>	<u>(4,370)</u>

#### 25.4 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 deposit accounts. In investing excess liquidity the Institute endeavors 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 INSTITUTE OF CHARTERED ACCOUNTANTS IN MALAWI

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2019

Figures in thousands of Malawi Kwacha

### 25 FINANCIAL RISK MANAGEMENT - CONTINUED

#### 25.4 Market risk - continued

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

Indicated below is interest earned from short term investments;

	2019	2018
Interest income	<u>37,361</u>	<u>109,525</u>

Interest expense on financial liabilities: -

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

### 26 CAPITAL COMMITMENTS

There were non-contractual capital commitments of K36 million (2018: K468 million) and a contractual commitment of K662 million as at 31 December 2019 (2018: K942 million).

### 27 EVENTS AFTER THE REPORTING PERIOD

As at December 31, 2019, a limited number of cases of an unknown virus which was eventually termed COVID-19, had been reported to the World Health Organisation. Following the subsequent spread of the virus, on March 11, 2020, the World Health Organisation declared the COVID-19 outbreak a pandemic and following this, the Malawi Government on March 20, 2020 declared Malawi a State of Disaster due to the COVID-19 attack. The Institute has considered that the identification of the COVID-19 after 31 December 2019 as a novel coronavirus, and its subsequent spread across the globe, as a non-adjusting subsequent event. Since there are direct and indirect impacts developing on organisations across multiple industries/sectors and the world, it is not possible to reliably estimate the financial effect (if any) of the virus on the Institute's operations as at the date of this report. The Council will continue monitoring the impact COVID-19 has on the Institute and reflect the consequences as appropriate in the subsequent accounting and reporting periods.

Other than the disclosures reflected above, there were no significant events that have occurred after the reporting date that would require adjustments or disclosures to be made to these financial statements.

### 28 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.

### 29 EXCHANGE RATES AND INFLATION

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

	2019	2018
National inflation rates. <i>Source: National Statistics Office</i>	11.5%	9.2%

The mid exchange rate of the Malawi Kwacha to the United States Dollar was

<u>736</u>	<u>730</u>
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At the date of approval of the financial statements the rates had moved as discussed below:

Kwacha/US Dollar	<u>736</u>	<u>730</u>
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