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JOURNAL OF THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF KENYA



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# Dear Reader,

**T**he University of Nairobi (UoN) recently announced that it had achieved a milestone by successfully conducting its first ever end of semester examinations online. This significant proclamation was made on Tuesday, May 26, 2020. More than 20 students taking the Master of Arts in Environmental Law and the Master of Arts in Environmental Policy were able to sit their examinations in the comfort of their own homes. UoN adopted online examinations in order to provide students with options to complete their studies at a time when face-to-face exams were impossible because of the Covid-19 pandemic.

Earlier, on May 8, 2020, Vice Chancellor Prof. Stephen Kiama stated in an address to staff and students that over 5,500 virtual classes had already taken place and were still going on. While addressing the quality of the online exams, Prof. Kiama said, "As a World Class university all our examination guidelines and procedures have been benchmarked against global best practice and we shall continue to ensure that they are reliable, consistent and of integrity."

Meanwhile, some examining bodies have been running computer based examinations for some time. The International Air Transport Association (IATA) for example, runs online examinations with remote supervision. The Chartered Financial Analyst (CFA) Institute is transitioning all CFA exams to computer-based testing. The December 2020 exam is the last paper-based exam; exams in 2021 will be computer-based for all levels: registration for a computer-based exam is a two-step process: one must first register for one's exam and then schedule one's actual exam appointment. If one does not see one's preferred location, one is asked to check back: the CFA Institute continually

adds appointment availability: each exam will be offered in scheduling windows of up to ten days, depending on location. Each test center will closely monitor candidates for cheating in any form. This is our *Cover Story*.

A good risk assessment is an important part of the process of putting together a solid internal audit plan. However, gathering risk information from an entire company and organizing it into manageable and actionable material can be a daunting task. Creating a risk heat map can help. Find out how, in the management segment. Now, ants can seem like some of the most insignificant insects on the planet because of their size. But the colonies they build and their contribution to their society is extremely significant. What big dreams do you have for your future? Pursue those. No matter how small you think you are, always chase something bigger than yourself. Ants are not scared of heavy tasks, but instead, take pleasure in lifting these objects to their colony. If we don't look at how big a mission is, we can easily accomplish tasks that seem insurmountable. Read more of this in the work place.

The budgeting process has been a routine, almost akin to an annual ceremonial activity within most institutions. It is seen by some as an irritant that the finance department subjects other sections of the institution. That is why some section and department heads have always held the perception that a budget is an accountant's tool of supervision and harassment. This has resulted in considerable lack of interest in the budget making process across most departments. We discuss this in the economy slot.

Did you know that effective workplace communication is a critical factor to overall organizational growth and that profitability and proper communication is key

for business expansion? Organizations across the world lose billions of shillings every year in costs associated with subtle, yet critical factors linked to poor workplace communication. A 2017 survey by Mitel, a global market leader in enterprise and mobile communications among 900 business professionals across North America and Western Europe, revealed that ineffective communication costs businesses an average of \$11,000 per employee, per year. Related surveys across the globe reveal a strong connection between poor workplace communication to employees' frustration, lower motivation and productivity in the workplace, employee disengagement and lack of collaboration across the organization. Delve deeper into this, in the business practice and development chapter.

Finally, citing real life examples, Charles Wheelan's book, *Naked Economics*, which we have reviewed this time, tackles real life challenges, and explains everyday occurrences; all the while, offering economic solutions to many of the world's problems. The author makes a case for the market economy, explaining why it is the most efficient system for governing a country, and how it has steadily improved our lives over the years. Meanwhile, pen off asserts that how audit is described influences how it is conducted and how users respond to it.

Savor these, plus your regular features in this last Journal of 2020.

Happy New Year!

*Mbugua Njoroge*



# Easing Readability Of Financial Statements Of Kenyan Listed Firms

*Studies show a significant relationship between text readability and academic achievement in Accounting*

By James N. Ndegwa & Mary Boyani

**W**hen financial statements are difficult to read investors are at risk of being confused and can make inappropriate investment decisions that can lead to loss of investments. Preparers of financial statements have more information than readers of financial statements and hence the preparers are capable of exploiting uninformed readers of financial statements through deliberate obfuscation techniques by virtue of the advantageous position they hold. The imbalance of information between 2 parties in a transaction that can lead to the exploitation of the party with less information by the party with more information is

referred to as information asymmetry. There is thus need to assess the ease of readability of financial statements in Kenya. Readable information enables: (i) users of financial statements make good informed financial decisions (ii) helps in reducing the information asymmetry and hence reducing the risk of readers being exploited by the preparers of financial statements.

The earliest use of readability was made by educators in preparation of material elementary and high schools. Ease of readability of writings then spread to other areas such as education, industry and business, governmental writing,

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*When financial statements are difficult to read investors are at risk of being confused and can make inappropriate investment decisions that can lead to loss of investments.*

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*This implies that the preparers of financial statements may need to understand the background knowledge of readers in order to communicate the lexical and textual meaning of the contents of financial statements. However the financial statement preparers need to be careful not to oversimplify the language employed in an attempt to improve readability. Whereas shorter sentences and words with fewer syllables are considered easier to read, oversimplified language might not necessarily communicate the complexity of financial statement contents especially when such complexity is necessary. The absence of sentence complexity in financial statement may have a negative impact on the preparers' ability to convey information to the readers.*

psychological tests and questionnaires, and foreign languages. Past studies have shown that there is a significant relationship between text readability and academic achievement in Accounting. This implies that the preparers of financial statements may need to understand the background knowledge of readers in order to communicate the lexical and textual meaning of the contents of financial statements. However the financial statement preparers need to be careful not to oversimplify the language employed in an attempt to improve readability. Whereas shorter sentences and words with fewer syllables are considered easier to read, oversimplified language might not necessarily communicate the complexity

of financial statement contents especially when such complexity is necessary. The absence of sentence complexity in financial statement may have a negative impact on the preparers' ability to convey information to the readers.

For the information to be useful to the users there should be adequate financial disclosure and ease of readability. Adequate and reliable information enables users of financial statements make good informed financial decisions and is also helpful in reducing the information asymmetry where the preparers of financial statements have more information than the readers and hence the risk of the readers being exploited by the

preparers. This has been witnessed in local, regional and international financial scandals where investors who happen to be readers of financial information possess less information which is a situation that has been exploited by owners and managers of firms. The owners and managers happen to be the preparers of financial information. The information imbalance between the readers and preparers of financial information is what is referred to as information asymmetry.

Readability refers to the linguistic characteristics of a text and it impacts on the ease with which a reader can be able to read and understand the text. Readability level of a text is an indicator of the

textual difficulty and it is also an indicator of the suitability of the text to characteristics of readers in terms of experience, academic and professional qualifications. Readability is fixed for a given text and is not varied by reader characteristics. Understandability or comprehensibility of the text or financial statements on the other hand refers to a reader's ability to make meaning of the financial statements and is thus affected by the reader's characteristics such as interests, background, prior knowledge and reading ability.

Legibility which is different from readability and it refers to the actual ease with which a text can be read. Word difficulty and familiarity, along with sentence length, may be useful as indicators of reading difficulty. The difficulty of individual words used in a text influences a reader's ability to understand the text. Word difficulty depends on the length and familiarity of a word. Longer, less familiar words are harder to read than shorter ones, though there are exceptions such as technical words that may be short and unfamiliar. Word familiarity relates to a word's ranking in word frequency lists. Sentence difficulty also impacts readability. Longer the sentences are deemed the harder to read than shorter ones. However, shorter sentences may contain concepts that are complex and difficult to understand, while longer sentences may provide more helpful clues to the meaning being conveyed. Cohesion and coherence within a text may aid readability for those readers with sufficient reading skills.

Security Exchange Commission (SEC) has been working to improve the readability of annual reports since it was established in 1934. SEC has taken an active role in emphasizing the importance of clearly presenting information in SEC filings. First, the SEC issued "A Plain English Handbook" in 1998 that encouraged the use of plain English in the designing of all prospectuses in registered public offerings. This handbook provided practical tips to improve the readability of disclosures in the annual reports such as write in short sentences, use definite, everyday language avoid the use of jargon, and double negatives,



Readability of information can be measured using various methods and the most popular methods include: the Cloze procedure, the Gunning's Fox Index, the Flesch-Kincaid Grade Level and the Flesch Reading Ease (FRE) formula. The current study focused on the Flesch Reading Ease (FRE) formula which suggests that writing style can be diagnosed as difficult or easy based on two factors: (i) The average sentence length (ii) The average syllable density given in number of syllables per 100 words. The best algorithm for readability approximation is the one-off determining vowels per word.

The Flesch score considers any word with more than two syllables as a complex word. A syllable is a single, unbroken sound of a spoken (or written) word. Syllables usually contain a vowel and accompanying consonants. Sometimes syllables are referred to as the 'beats' of spoken language. Syllables differ from phonemes in that a phoneme is the smallest unit of sound; the number of syllables in a word is unrelated to

the number of phonemes it contains. To determine the extent of readability the Flesch reading ease score index was employed which is the most popular readability index. Flesch reading ease score index is as follows:

$$RE = 206.835 - \{(1.015 * ASL) - (84.6 * ASW)\}$$

Where:

RE = readability ease  
ASL = average sentence length = the number of words / the number of sentences  
ASW = average number of syllables per word = the number of syllables / number of words

For the current study, readability websites were employed to compute the Flesch reading ease scores in order to ensure reliable and accurate data. The Readability Ease ranges from 0-100% the greater the percentage the easier the readability. While the lower the percentage the more difficult it's to read as follows:

Flesch Score	0-30%	30-50%	50-60%	60-70%	70-80%	80-90%	80-90%
Readability	Very difficult	Difficult	Fairly difficult	Standard	Fairly easy	Easy	Very easy

#### Flesch Reading Ease Index and Reading Level Text type

90% – 100%	Very easy (Grade 5) such as comics
80% – 89%	Easy (Grade 6) such as pulp fiction
70% – 79%	Fairly easy (Grade 7) such as slick fiction
60% – 69%	Standard (Grades 8 and 9) such as digests
50% – 59%	Fairly difficult (Grades 10 to 12) such as quality materials
30% – 49%	Difficult (Undergraduate) such as academic materials
0% – 29%	Very difficult (Postgraduate) such as scientific materials

There were 61 companies listed in the Nairobi Securities Exchange in the current study and which employed data over years 2018 – 2019. 59 companies were sampled for the study using stratified random sampling technique to ensure that all sectors of the NSE were involved. Secondary data was collected from the publicly available published financial statements in annual reports in company websites. The findings in Table 2 indicate that the average readability index score for all sectors of NSE was 31.58% which can be interpreted as difficult to read financial statements as per Table 1 guide. The Agriculture sector had the highest readability score of 36.98% which implied difficult to read financial statements and the sector with the least score was the Insurance sector with a mean score of 21.07% implying very difficult to read financial statements.

#### Findings on Readability of Financial Statement in NSE Listed Companies

NSE Sectors	No. of companies listed in NSE per sector	Average Flesch Readability Scores for NSE sectors (%)
Agriculture	6	36.98
Banking	11	33.85
Automobiles	1	33.9
Commercial and Services	11	31.13
Construction and Allied	5	36.92
Energy and Petroleum	5	29.9
Insurance	6	24.07
Investment	5	26.96
Manufacturing	8	35.74
Telecommunication	1	24.7
<b>Average for all sectors</b>		<b>31.58</b>
<b>Max. score for all sectors</b>		<b>50.9</b>
<b>Min. score for all sectors</b>		<b>6.4</b>

Individual listed companies had a highest readability score of 50.9% as per Table 2 which implied fairly difficult to read financial statements while the least individual company readability score was 6.4% which implied very difficult to read financial statements as per the Table 1 guide. In summary financial statements of NSE listed companies are difficult to read perhaps due to the complexity of the content that are required to comply with financial reporting standards and guidelines.

CPA James N Ndegwa (PhD) is a member of The Institute of Certified Public Accountants of Kenya (ICPAK)

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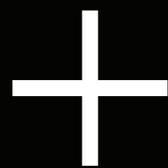
The difficulty of individual words used in a text influences a reader's ability to understand the text. Word difficulty depends on the length and familiarity of a word.

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DREAM IT,

YOU CAN

DO IT.



**IF YOU CAN**



**DREAM IT,**



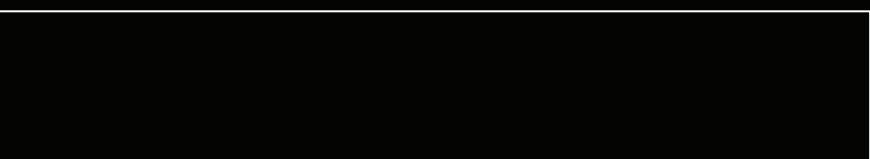
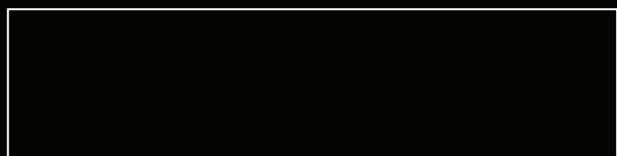
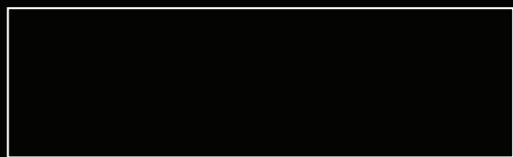
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**DO IT.**



WALT DISNEY



IF YOU

DREAM

YOU

DO I



# Financial Inclusion and Digital Financial Services: Is Covid-19 An Enabler?

*1.7 billion Adults still unbanked*

By Justus Musila

**F**inancial inclusion can be defined as delivery of banking, credit, savings, insurance, payments and remittance facilities by the formal financial services at an affordable cost to the vast sections of disadvantaged and low-income groups. Financial inclusion, within the broader context of inclusive development, is viewed as an important means to tackle poverty and inequality, and to

address the sustainable development goals (SDGs). For instance, it is argued that a transaction account serves as a gateway to other financial services, which is why ensuring that people worldwide can have access to a transaction account is the focus of the World Bank Group's Universal Financial Access 2020 initiative. In terms of global financial inclusion, despite the inroads made over the past three decades, close to one-third of adults – 1.7

billion – are still unbanked, according to the latest FinIndex data (World Bank, 2018). Additionally, in Sub-Saharan Africa, 43% of all adults had an account with a banking or financial institution by 2017. The FinAccess (2019) survey findings show that Kenya has made significant milestones in expanding the access to financial services and products to 83% in 2019 from 27% 2006. Several factors contribute to this impressive outcome in Kenya –

rapid uptake of mobile money, adoption of transformative financial technologies and innovations, and government initiatives and policies. Measurement of financial inclusion in Kenya commenced in 2006 through the creation of FinAccess surveys implemented over the years by the Central Bank Kenya (CBK), Kenya National Bureau of Statistics (KNBS) and Financial Sector Deepening (FSD) Kenya. Given the fast pace of financial sector development in Kenya, the FinAccess Survey constitutes an important tool for monitoring financial inclusion trends and dynamics, thus informing policy and industry on progress towards pro-poor and pro-growth financial sector development. Both the Central Bank of Kenya and The National Treasury and Planning have relied on FinAccess data to inform the development of policies that support inclusion (FinAccess, 2019).

On the other hand, digital financial services is the broad range of financial services accessed and delivered through digital channels, including payments, credit, savings, remittances and insurance. The functionality of digital financial services has been eased by high penetration of mobile phones connections, great strides made in internet connectivity and digitalization of both private and government services world over. The role played by digital financial services has become increasingly important in enhancing financial inclusion over the years, but more recently the digital finance space is being boosted by the rise of e-commerce globally.

The emergence of corona virus pandemic in mid-March 2020 in the country presented a myriad of challenges and disruption across many sectors of the economy. The financial system was not spared either, with access to credit affected by high risk laced with the pandemic. Scores of borrowers both macro and micro had to reorganize their loan schedules though some were unfortunate to have their assets auctioned. The directive on temporary suspension of the listing of loan defaulters with the Credit Reference Bureau (CRB) of any person, micro, small and medium enterprise and corporate entities

whose loan account was in arrears effective April 1, 2020 provided an avenue for more credit access especially on mobile lending apps. This directive may have lured even the laid back and risk averters of borrowers to at least try a mobile loan as the hard times continued to bite. Banking halls soon turned empty as the effects of social distancing took effect. Banks quickly activated the digital finance services button directing their customers to internet banking, mobile money and ATM machines for alternative banking solutions. The free cost incentives on digital finance services by the government and heeded by bankers seem to have been well received by users. Furthermore, the Ministry of Health in some of its early guidelines on how to prevent COVID-19 encouraged use of cashless payment systems further pushing the transacting population to use digital finance services. It can be noted that even some of the mama mboga's had to switch to mobile payments in a bid to keep the virus away. Meanwhile, many jobs now estimated at 1.7m had been lost since the onset of the pandemic as reported

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*Meanwhile, many jobs now estimated at 1.7m had been lost since the onset of the pandemic as reported by Kenya National Bureau of Statistics (KNBS). The government introduced various interventions to cushion the most vulnerable from adverse effects of the pandemic. Some of these interventions include cash transfers to the most vulnerable in slum dwellings all over the country and Kazi mtaani programs.*

by Kenya National Bureau of Statistics (KNBS). The government introduced various interventions to cushion the most vulnerable from adverse effects of the pandemic. Some of these interventions include cash transfers to the most vulnerable in slum dwellings all over the country and Kazi mtaani programs. In both programs' payments are processed through mobile cash transfer, bringing on board more digital financial services users. The signal from government on these programs as well as in the past is to support use of digital services and push further the agenda of financial inclusion in the country.

### The lock down

Then came the lock down. The country was locked from international travels and localized cessation of movements. Many citizens were trapped abroad with others blocked from travelling overseas. The fact that cargo flights were exempted from the international travel bans, this meant that business continued unabated. It is obvious that trade payments could only be transacted on digital platforms. On the local front, with four counties facing the lock down which lasted for around four months, funds transfer option for most of the population was through digital platforms. One of the counties which faced the lock down was Nairobi which accounts for up to 60% of the country's Gross Domestic Product (GDP). Mombasa county was too not spared the lock down.

The effect of these counties' lock down was predicted to be far reaching as said by James Shikwati, an economist, If Kenya goes further and imposes a lockdown, "there is bound to be violence". This is mainly because people in poor neighborhoods of cities like the capital, Nairobi needed a way to access food, water, and sanitation. This was exacerbated by the health ministry call to stay home. On the flip side, the call to stay home fueled growth and expansion of e-commerce where many businesses turned on to online sales changing the long known practice of customers physical shopping to the more convenience experience of doorstep delivery. Malls, restau-

rants, and recreational spots recorded considerably lower visits such that even ready to eat food which hitherto was not so much on e-commerce platforms now dominated online adverts as restaurants and eateries jumbled to keep afloat. This most likely had many Kenyans using their gadgets more than any other time as they did online shopping as well as online payments in addition to many other online activities like watch parties, online challenges etc.

The pandemic pushed several businesses to close, individuals lost jobs, others faced salary cuts and a

good number had to contend with unpaid leave. In overall the economy slowed down, and the attendant ripple effects were felt across the nation. Though a few people may have moved into financial inclusion and use of digital finance services, there is also a considerable mass that did not use the digital financial services even though they had access. This scenario points to the big debate on measurement of financial inclusion, whether to use access, usage or both? Many may have access to a bank account and or a digital finance platform but may never use it especially over the pandemic period.

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# Risks Heat Map – The Powerful Tool In Enterprise Risk Management

*An excellent tool to communicate the overall risk picture to busy executives*

By Abdallah Mambo Dallu

**R**isk heat maps are visualizations that present the results of a risk assessment. In an enterprise risk assessment process, the ability to visualize risks helps to establish and communicate a holistic view of risks affecting the organization. Risk heat maps are often used to convey the potential likelihood and impact of risks so that strategic decisions can be made for the health of the organization.

A good risk assessment is an important part of the process of putting together a solid internal audit plan. But gathering risk information from an entire company and organizing it into manageable and actionable material can be a daunting task. Creating a risk heat map can help.

Conducting a risk assessment,

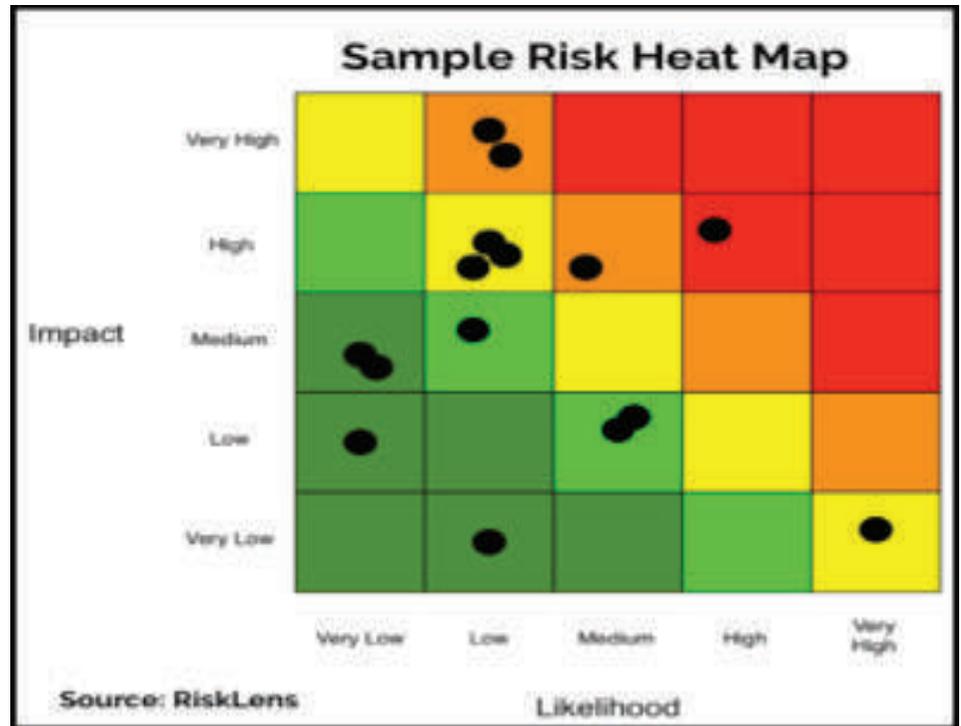
either as part of a full enterprise risk management process (ERM) or through a more narrowly focused internal control process, is a critical step to help keep management focused on the key risks that could impact the company. A heat map—a visualization tool to help organize, define, and quickly communicate these key risks—is an indispensable tool in any risk management toolbox and can help cut through the complexity.

Indeed, risk heat maps are a common part of an ERM approach to risk management. The Committee of Sponsoring Organizations' (COSO) ERM guide, *Enterprise Risk Management—Integrated Framework*, promotes the use of a risk matrix or heat map to focus management's attention on the most important threats and opportunities and to lay the groundwork for risk responses.

A heat map is a two-dimensional representation of data in which values are typically represented by colors (often red, green, and yellow) and can range in complexity from simple (for example, showing qualitative risks only) to more complex (including qualitative and quantitative risks). In the risk assessment process, visualization of risks using a heat map presents a concise, big-picture view of the full risk landscape to discuss while making decisions about the likelihood and impact of risks within the company. (It's important to note that a full risk identification and assessment process is generally required before creating a heat map and those steps are not addressed here.)

## **An Important Risk Management Tool**

A risk heat map can be an important



“

*A risk heat map can be an important tool to communicate risk within an organization. It is very effective in communicating which risks rate highest when you consider their potential impact and the likelihood of that impact.*

tool to communicate risk within an organization. It is very effective in communicating which risks rate highest when you consider their potential impact and the likelihood of that impact.

To make use of a risk map, it's important for the organization to create a common language around discussions of risk. Terms like “potential impact” and “likelihood” need to be defined and used throughout the organization and in the design of the heat map so that everyone is on the same page on discussions of risk. It also requires a common understanding of the risk appetite of the organization.

Organizations use a variety of ways to identify entity-wide risks, including surveys, workshops, interviews with business unit managers, risk factors disclosed in financial reports, industry literature, and many others. When the entity-wide risks are identified then each risk is assessed for potential impact, sometimes called “severity” and likelihood of occurring.

Assigning the impact and likelihood scores is easily the most difficult part of the risk-mapping process and much thought and deliberation should go into it. While internal

audit can play an important part of this risk scoring, the process should seek major input from the business unit managers, risk management function, and elsewhere.

What benefits do Risk Heat Maps provide?

- A visual, big picture, holistic view to share while making strategic decisions
- Improved management of risks and governance of the risk management process
- Increased focus on the risk appetite and risk tolerance of the company
- More precision in the risk assessment process
- Identification of gaps in the risk management and control process
- Greater integration of risk management across the enterprise and embedding of risk management in operations.

#### Plotting the Risks

A typical risk heat map will show risks plotted on a graph with “potential impact” on the vertical axis at left and the “likelihood” plotted on the horizontal axis along the bottom. A simple 3x3 risk heat map will contain three categories for each. Potential impact can be defined as high, medium, and low, while likelihood can be defined as

remote, possible, and plausible. Once each risk is scored on these attributes, they can be plotted on the graph. A more complex map can have more categories, such as a 5×5 map. For example, potential impact can range from negligible, low, medium, high, and extreme, and likelihood can range from remote, unlikely, possible, plausible, to likely. Again, it's more important that these terms are used commonly throughout the organization than the exact terms used.

Some companies take the additional step of assigning percentages to these ranges to better quantify them beyond the labels. For example, a remote likelihood might be defined as a risk that has a chance of occurring from 0 to 10 percent, an unlikely one from more than 10 percent to 25 percent, and so on.

These attributes can also be used to compute an overall risk score. The overall risk score corresponds to the product of the likelihood (or probability) rating scores and the impact rating scores. The simple formula to calculate risk score is: Risk Score = Likelihood Score x Impact Score.

The risks will be plotted on a heat map according to its score. The risks in the heat map will range from red, yellow, and green—and shades in between—according to their individual score. Companies usually map risks on a heat map using a “residual risk” basis, meaning that it considers the extent to which risks are reduced by internal controls, insurance, or other existing risk response strategies. Then, they can be plotted on the four quadrants or sections if there are more than four.

The map can help the company visualize how risks in one part of the organization can affect operations of another business unit within the organization. A risk map also adds precision to an organization's risk assessment strategy and identifies gaps in an organization's risk management processes. Additionally, it helps to clarify the company's relative response to risks. Since there are not unlimited resources to manage risks, the response must be in proportion to the risk. A heat map can help

identify where resources are being used disproportionately to the threat implied in a given risk.

### Creating a Risk Heat Map

The process of creating a risk heat map sits on top of, and is based on, an extensive process of conducting a risk-assessment to identify risks and then potentially creating a risk matrix or risk register where risks are categorized, scored for potential impact and likelihood, and potentially assigned with several other attributes. Let's walk through the key steps in preparation of a risk heat map. These steps will produce a solid risk heat map suitable for most organizations, particularly small and medium companies or for a single business unit or function.

**1: Define the scope:** Decide on the scope of the map you want to create. It can be a simple 3×3 matrix with three colors for high, medium, and low, or it can be a complex affair with layers based on types of risk, several categories on each axis, multiple shades depending on risk scores, lines that follow how risks have changed over time, and more. Start simple and add complexity as you go along. Also, ensure that those who will use the map in the decision-making process are on board with the planned scope. You don't want the board to criticize the map as too simplistic once you've gone all the way down the road of completing it.

### 2: Create a common language.

Building a heat map—indeed, the whole risk management process—relies on using a common vernacular to talk about risk. Terms like “likelihood,” “impact,” and “onset speed” need to be defined and used in the same way throughout the organization. It's also a good idea to give rankings along the axes quantitative ranks, such as percentage ranges or scale ratings, such as 1 out of 5 for “low.”

**3: Gather the necessary data.** Again, a risk heat map should be built after a solid risk assessment process is completed, so the data should be there already. You may be consolidating data from several departments or functions, in which case you need to ensure that the assessments were done in the same way and that duplication is eliminated. It's important to get consensus on the data before you begin the mapping process. You don't want process owners taking issue with the risk scores after the map has already been created.

**4: Score the risks.** Score on likelihood, impact, and other factors you want on the map, according to the agreed scope. This part is likely done already, if a risk register or risk matrix is created after the risk assessment and identification process is completed. It's important that process owners and those that

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*The map can help the company visualize how risks in one part of the organization can affect operations of another business unit within the organization. A risk map also adds precision to an organization's risk assessment strategy and identifies gaps in an organization's risk management processes. Additionally, it helps to clarify the company's relative response to risks. Since there are not unlimited resources to manage risks, the response must be in proportion to the risk. A heat map can help identify where resources are being used disproportionately to the threat implied in a given risk.*

“own the risk” drive the risk scoring process, since they are closest to it, with help from the second and third lines of defense. Try to keep it simple, by using scores on a range from 1 to 10 or 1 to a 100. Gets lots of input from those in the best position to understand the risk and drive consensus. You don’t want to find out later that the process owner never agreed with the score that was determined for the likelihood of a particular risk.

**5: Plot the points and create the map.** The actual mapping of risks is fairly easy, once the data is gathered and consensus is achieved on scores. Use a simple application, such as Excel, at first and for simple maps. In fact, Excel should serve most of your heat-mapping needs. More sophisticated programs, such as Tableau or eSpatial, may be able to do slightly more. Large ERM software packages will also likely be able to produce risk heat maps from existing risk-assessment work, without re-entering lots of data.

**6: Assess the relative placement of individual risks.** The first glance at a newly produced risk heat map will likely yield a few groans. A risk that is clearly more severe in terms of impact and has a higher likelihood is somehow in a “safer” quadrant than a far more benign risk. The error is often the result of a breakdown in forming a common language, or an outlier view has

been incorporated that is not shared by others. At this step, such problems can be identified. You should also assess the usefulness of the map at this stage. Is there too much data incorporated into the map to make it useful? Is it too complex? Too cluttered? Too simplistic? You won’t really know until you plot the points and put it all together. At this stage the complexity or scope can be adjusted to ensure the usefulness of the final product.

**7: Gather feedback.** The feedback and consensus process starts again with the whole map in view and adjustments are made to fix outliers, errors, and in light of the relevant scores of each risk. The usefulness, based on complexity and addressed in the last step, can also be further assessed and adjusted here. It might also be time to incorporate feedback from senior executives or even the board.

**8: Refine and update the map.** Use the feedback to make adjustments to the map and then create the process for updating the map and ensuring that it is a living document. It an annual process to coincide with the risk assessment that is completed as part of the audit planning stage? Or will it be updated on a quarterly, monthly, or more frequent basis? At each iteration the map can also be refined and more complexity can be added as those in the organization become more familiar and comfort-

able with using it.

### Conclusion

A Risk Heat Map is an important method to show the results of the qualitative assessment approach visually and in a meaningful way. The assessment is a critical step in the management process, it’s involved in finding the probability of threat occurrence and the impact on the construction project’s major goals (time, cost and quality).

Heat maps are an approach to prioritize and rank threats, and all that is done by multiplying the probability by the impact... the result is known as a risk score. This can be allocated in different coloured zones which reflect the importance of the threat of the red colour zone which represents the high threat zone; depending on how much important changes in impact and /or probability, heat maps can be customized to show more details about what types of threats need more attention.

A risk heat map is an excellent tool to communicate the overall risk picture to busy executives.

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# A Case for Programme Based Budgeting Amid The Covid-19 Pandemic

*The pandemic has thrown economies into chaos and panic*

By James Fredrick Ochieng

**T**he budgeting process has been a routine, almost akin to an annual ceremonial activity within most institutions.

It is seen by some as an irritant that the finance department subject other sections of the institution. That is why some section and department heads have always held the perception that a budget is an accountant's tool of supervision and harassment on how they spend money and get reprimanded for under absorption of financial resources for the public sector entities or wastage of funds for the private sector counterparts.

This has resulted in considerable lack of interest in budget making across most departments to the extent that activities are grossly underfunded or funds needed elsewhere misallocated because the budget owners at the activity cost

centers do not take interest and ownership in the process of budgeting. This has worked fine so far for institutions who have mostly applied zero based or incremental budgeting. The reference point always being last year's budget with an incremental component more so for institutions with repetitive activities with very little research and innovation projects for service improvement. The input of the section heard was not seem to matter.

And then Covid-19 pandemic landed off the planes, ships and boats at global airports and docks uninvited, but comfortably decided to reside in our midst assimilating into communities mighty and lowly throwing everything into disarray and leaving behind casualties, medical and economic in its wake. Still it was supposed to be in our midst for about two to three weeks but then

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*But it is understood, no one has ever imagined that a flu could bring the world to a standstill in the 21st century with all the technological advancements and milestones made in the study of medicine and virology. Indeed, human is after all limited.*

eight months and counting, the unseen guest is still here creating havoc and stifling our breathing with masks. Not able to kick out the pandemic, we have had to adjust and accommodate its presence while trying to go on with our daily routine albeit under a cautionary new normal way of doing things.

The pandemic has thrown economies into chaos and panic, industries have collapsed and a significant number are on their knees with thousands of lost jobs and bankruptcies. Some businesses have been handed death sentences and will never see the light of day ever again. Others will leak their wounds and rise from the ashes. The surviving ones have hopefully learnt a lesson or two on how to manage uncertainty.

Of all my close to twenty years of work experience, I have attended various kinds of training. Memorable ones include risk management. Various topics have been covered on risk management but I do not to the best of my recollection remember any of the facilitators discussing biological or ecological risks of the pandemic type. It has always been financial, market, liquidity, legal, people etc. The nearest to an environmental risk has been risk of depletion of raw material, pollution, stake holders and such, mostly giving existential risk a wide berth. The risks have always been institution based and very few if any risk experts ever envisioned a kind of risk which is not third world war based or some meteors or UFOs hitting planet earth from outer space but which has the potential to hold the world at ransom for these many months or wipe out a large section of humanity with the accompanying disastrous challenges. But it is understood, no one has ever imagined that a flu could bring the world to a standstill in the 21st century with all the technological advancements and milestones made in the study of medicine and virology. Indeed, human is after all limited.

It is no wonder then that institutions have had to restructure their activities to cope with the new normal. The budget being the driver

of institutional financial activities has to be re-looked at a fresh, or should be. A few lessons are then drawn from this situation. The budget is a plan, yes an approved plan but just a plan. This suggests that like all plans, it is a future projection and since institutions do not commission fortune tellers to predict the future, appreciation of change in circumstances must be accommodated during budget making. Budgets should not be rigid but should give room for flexibility. This to allow for accommodation of unforeseen events and allow for periodic review of the budget. This is not to say room should be given for throwing up figures anyhow. There is need to actualize all budgetary items and justify whatever activity or commitment the cost center is in need of to allow for prudent allocation of resources. Historical perspectives should be used more as lessons learnt to inform future activities but not as a benchmark for future plans.

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*I am of the opinion that with this kind of approach to budgeting, when circumstances change like in the current pandemic the entire programme, its objectives and the desired outputs can be evaluated in light of the changing circumstances to inform whether the programmes, sub programmes or activities are still relevant for the moment and whether the circumstances will allow for continuity and if the output will be useful to the institution's mandate.*

This has informed forward looking organizations to embrace programme based budgeting as a mode for budget making. The budget is then informed by the programmes or activities that are planned for a particular year and not necessarily what was done in the past year. With this kind of budgeting, fund allocation is programme or activity based. Programme becomes the focal point allocation of financial resources and determine how much goes where.

The programme based budget then gives a holistic look at what was planned and the resultant output checking and limiting against spending of resources on peripheral line items within a budget and without means to quantify output and impact of the expenditure. It builds a case for value for money where the output is quantified against the resource input. The budget format advices on the objectives or the intentions of the activities helping the organization evaluate the impact and also compare with other competing programmes to ensure optimum utilization of resources for the desired achievement of the objectives and by extension justifying the existence of the institution by evaluating if it is efficiently and effectively achieving its mandate. The indicators, targets and milestones that are predefined are used to track implementation of budgetary activities in this form of budgeting for as long as the objectives, targets, indicators and outputs are Specific Measurable Attainable Realistic and Time bound.

I am of the opinion that with this kind of approach to budgeting, when circumstances change like in the current pandemic the entire programme, its objectives and the desired outputs can be evaluated in light of the changing circumstances to inform whether the programmes, sub programmes or activities are still relevant for the moment and whether the circumstances will allow for continuity and if the output will be useful to the institution's mandate.

For If institutions like the Kenya Medical Research Institute - KEMRI,

Kenyatta National Hospital –KNH and the Ministry of Health – MoH were to apply programme based budgeting (and I pray they do), then being in the core of management of the covid-19 pandemic, they would be in a position to review their planned annual programmes seeking to evaluate the relevance of some for instance particular areas of research that they are pursuing. It is true that Covid-19 cannot be used as an excuse for suspending the other areas of research and health care. If anything road accidents, cancer, HIV and malaria kill more people annually in Sub-Saharan Africa than Covid-19 is likely to kill in the same period going by the current statistics. Safe for a catastrophic surge, we are likely to see a significant downward trend in casualties. This then informs whether all resources should be poured into management of this pandemic at the expense of the others. The expert advisory that this pandemic could be with us for a longer time vis a vis the existing diseases would then inform prudent distribution of available resources by evaluation the long-term impact

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*This is likely to be a new trend and with the lessons learnt during this pandemic, it is likely that there will be a new way of doing things. What looked obvious and ordinary like travelling for meetings have been replaced by zoom, google meet and other online conference facilities.*

of different kind of diseases or other policy matters that the above institutions have to deal with and the desired output.

Flexibility of the budgeting process will therefore allow for periodic analysis, monitoring and evaluation of the implementation and the tracking of desired output to inform on resource allocation, programme variation, postponement or totally abandoning a particular programmes to re-allocate resources elsewhere. This also discourages the approach of line item budgeting where more focus is put on items than on activities and their desired outputs. Line item budgeting is a situation where the focus is more on how much is spent say on salaries, stationary, fuel and travel without tying these expenditures to a desired output. With this limitation, there is a risk of spending without any achievement on the overall objectives. The proponents of fund absorption in governments and among donors are always concerned about low absorption of allocated funds. This then encourages a lot of unnecessary workshops and conferences, purchased of motor vehicles and spare parts which are not needed, payment of unsustainable salaries and purchase of unnecessary consumables to demonstrate fund absorption.

On the contrary, tying absorption of funds to specific pre-agreed outputs is a more effective way in ensuring achievement of desired objectives. This suggests that in the event where there are changes in circumstances or in the trading environment, a re-evaluation of the programmes and budget is necessary to ensure an institution stays afloat. This is equally applicable in the private sector where some companies for instance in the manufacturing sectors like the textile industry have adjusted their production lines to the manufacture of PPEs while those producing solvents, soaps and even soft drinks have ventured into the manufacture of hand sanitizers, the desired output being a defined return on investment. The training facilitators have equally reinvented themselves and revised their programmes to online meetings. This has helped

manage facilitation costs like hotel bookings, using fewer facilitators to provide content while retaining clients. The same can be said of other institutions like universities and even for other sectors where training and travel budgets have been reduced and the funds have had to be allocated to other pressing activities to ensure continuity.

This is likely to be a new trend and with the lessons learnt during this pandemic, it is likely that there will be a new way of doing things. What looked obvious and ordinary like travelling for meetings have been replaced by zoom, google meet and other online conference facilities.

Innovative ways also need to be devised to manage the most neglected side of the budget; the revenue side. It is common knowledge that most governments and state agencies perennially run deficit budgets. This is because all the focus is placed on planned expenditure for the financial year with little or no emphasis on the sources of revenue to fund the budget. This budget hole is almost always filled with increase in taxes and loans which is counterproductive to economic growth and expansion. While expenditure should be matched to available resources, programme based budgeting also helps eliminate budget allocation to ambiguous programmes, sub programmes, activities and line items which do not generate any value to the objectives of the institution but end up consuming limited resources.

It also helps in channeling resources to where they are needed most thus helping in mitigating against shocks and unforeseen occurrences such as the Covid -19 pandemic. We should therefore be in a position to sanitize our budgets to be relevant to the prevailing economic environment even as we sanitize our hands.

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# Actualizing Housing Agenda Through Mortgage Re-finance For Saccos

*Initiative to boost Kenyans in informal and formal sectors*

By Felix Nasubo

**T**he government outlined four key development priorities (The BIG 4 Agenda) for implementation over a five year period (2018-2022). Key among this is affordable housing with a target to deliver at least 500,000 affordable housing units in major cities across the country. KMRC was incorporated under the Companies Act, with a required minimum paid up capital of Sh1 billion. The company has since surpassed this threshold following investment from various shareholders including the government.

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*This license not only marks a historic new dawn in affordable housing finance in Kenya, but it also illustrates the legal, structural and strategic foundations that we have been putting in place since inception for a fit-for-purpose mortgage refinance company,” said Mr. Oltetia.*

The Kenya Mortgage Refinance Company (KMRC) received a license from the Central Bank of Kenya (CBK) on September 18, 2020. The license gives the mortgage refinancing firm the greenlight to commence its core business of providing fixed long-term financing to participating banks, microfinance banks and SACCOs for onward lending to borrowers seeking long-term home loans at affordable rates. According to KMRC Chief Executive Officer Johnson Oltetia, the issuance of the license paves way for disbursement of funds by the World Bank and continental DFI (Development Finance Institution)

African Development Bank (AfDB), to the tune of Ksh. 35 billion in form of debt financing through the National Treasury. "This license not only marks a historic new dawn in affordable housing finance in Kenya, but it also illustrates the legal, structural and strategic foundations that we have been putting in place since inception for a fit-for-purpose mortgage refinance company," said Mr. Oltetia.

The government owns a 25 percent stake in KMRC, with the rest of the shares held by banks, Saccos and microfinance institutions. KMRC will lend to banks and financial co-operatives at an annual interest of five percent, enabling them to write home loans at between seven to nine percent—lower than average market rate of 11.94 percent or 42 percent cheaper.

On Monday, 28th September, 2020, Harambee SACCO became the first lender to offer mortgages at an annual subsidized interest of seven percent under a plan supported by a State-backed home loans refinancing plan. At the launch of this partnership, KMRC Chief Executive Officer Johnson Oltetia announced that they target more lenders to come on board and fully roll out the plan which aims to benefit majority of Kenya low income earners to access mortgage facilities to either buy a house or build one. This is after newly established Kenya Mortgage Refinance Company (KMRC) approved the SACCO's two mortgage products, Harambee Home loan that enables its members to purchase readily built houses and Harambee Jenga loan, where borrowers are facilitated to build a house on their own parcels of land. The two loans are pegged at eight percent interest rate for the 10-year mortgages and at nine percent for over 10 years and up to 25 year mortgages. This initiative is a milestone in the realization of President Kenyatta's Big five agenda on access to affordable housing by Kenyans as a way to alleviate poverty in the long run.

The initiative has been welcomed by many Kenyans both in the informal and formal sectors who form the majority membership of SACCO movement in the country but have low incomes. They view SACCOs as

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special purpose vehicles for creating wealth by pulling their low earnings together in monthly share savings to actualize their dreams overtime as opposed to mainstream banks where lending rates are beyond their reach hence making it impossible to access facilities to own homes.

The lower home loan rates are the product of KMRC, a Treasury - backed lender, which offers banks and SACCOs cash for onward lending to households. KMRC chief executive Johnson Oltetia said Harambee SACCO which contributed Sh25 million for a stake in KMRC, together with 10 others were legible for the mortgage re-finance facility owing to their shareholding. "We have a ready Sh4.5 billion mortgage portfolio that our shareholders can tap into for onward lending to Kenyans and a further Sh25 billion loan facility from the World Bank that we can readily access. Africa Development Bank has committed Sh10 billion," he said. Harambee Sacco chairman Macloud Malonza said they will cash in on their rich land bank to promote their two products where each beneficiary will be expected to pay a 10 percent deposit for a mortgage starting at Sh500,000 to a maximum of Sh4 million. Each mortgage is pegged at member's age until retirement at 60

years or 25 years' repayment period where Jenga loans will be based on a draw-down basis based on stage by stage arrangement during construction.

Kenya Mortgage Re-finance Company was created on the backdrop of the proposal by the president to create National Housing Fund which was challenged in court by a section of Kenyans on its admissibility. The courts stayed its rollout and implementation. From onset the fund had received much resistance from Kenyans from all quarters who raised concerns and fears on how the fund was to be administered to enable Kenyans access facility to own homes.

#### **Why Government should use SACCOS**

SACCOS over the years control a large membership who mostly are low and middle income earners. These group of people who are majority civil servants and self-employed should be the target by the government if it aims to realize the housing agenda. By helping these SACCOs access funds to loan to members at affordable rates, the government will help majority of Kenyans own homes affordably without fear of punitive rates from the industry.

Deposit-taking SACCOs are not legally permitted to purchase or invest in land because real estate is not considered part of the SACCO model's core business, but they can and do frequently act like agents, where they connect buyers and sellers. SACCOs have formed subsidiary investment companies which help members to buy land. This makes SACCOs reliable to offer housing solutions to their members. They also extend loans that are used to finance purchase of land or house. However due to the nature of members' income levels, they rarely qualify for bigger loans to buy or build a house. With this partnership, members will be able to acquire houses at lower rates.

SACCOs rarely extend formal mortgage products due to inherent constraints in their capital structure. Instead, most members finance their housing with short or medium-term project loans, on average ranging from four to six years. These loans tend to be expensive to borrowers. The new mortgage partnership will give relief

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**With this partnership, members will be able to acquire houses at lower rates.**

to members who will enjoy long repayment terms and at the same time use their deposits to secure the loan.

SACCOs have a model of member ownership through share capital and deposit contributions. This model is acceptable to many low income earners who will generously patronize the new mortgage product as opposed to a Housing Fund which is a new model to majority of Kenyans; as a result it was strongly resisted.

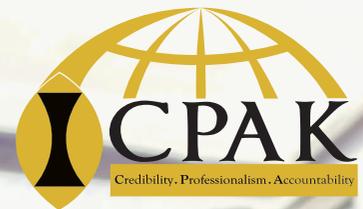
**Challenges facing SACCOs that may impede proper mortgage administration.**

SACCOs are national outfits that are regulated by the government. For years SACCOs have reported challenges that have hampered their effective operation. It is against this backdrop that parliament enacted the SACCO Society Act, 2008 which created SASRA that is mandated to regulate the operations of SACCOs in Kenya. SASRA has tried to streamline the operations of SACCOs in Kenya and recently we have witnessed growth in the sector due to continuous supervision by SASRA. However, there are reported challenges that need to be addressed in order to realize the goals of the mortgage refinance of SACCOs.

These are;

- Mismanagement and corruption
- Late remittances of funds from employers
- Inefficiency in operation
- Governance issues
- Supervision lapses by the regulator

*CPA Felix Nasubo is a member of The Institute of Certified Public Accountants of Kenya (ICPAK)*



# Is the Current Vat Rate 16% or 14%?

*An upward revision of tax rates should be preceded by broad consultations with all stakeholders*

By Yakub Ibrahim

**T**he legislative authority of the Republic is derived from the people and, at the national level, is vested in and exercised by Parliament.

The above is straight from article 94(1) of the constitution. On 25th March 2020, the Cabinet Secretary for the National Treasury and Planning, Hon Ukur Yatani issued legal notice number 35 of 2020. The notice amended the VAT rate from 16% to 14% effective 1st April 2020. A few days prior to the legal notice, his excellency president Uhuru Kenyatta had made a public announcement outlining a raft of measures aimed at easing the adverse economic effects of the newly 'arrived' Covid 19. Pundits had opined that the legal effect of the presidential announcement would only be effective if and when a bill is presented and goes through all the relevant motions in parliament.

While there is no doubt whatsoever that the president was only making a political statement with zero legal effect, hard questions can be asked

as to whether the legal notice number 35 of 2020 can stand constitutional scrutiny.

Is it possible the cabinet secretary was usurping the role of parliament? There are very compelling and persuasive reasons which can be made for and against the constitutionality of the legal notice. Legal notice number 35 of 2020 was issued pursuant to section 6 of the VAT Act 2013. The section states: The Cabinet Secretary may, by order published in the Gazette, amend the rate of tax by increasing or decreasing any of the rates of tax by an amount not exceeding twenty-five per cent of the rate specified in section 5(2)(b).

The implication of section 6 is that parliament has delegated its legislative authority to the cabinet secretary. The constitutional basis of this delegation is in article 94(5) which states that: No person or body, other than Parliament, has the power to make provision having the force of law in Kenya except under authority conferred by this Constitution or by legislation.

It can thus be argued that the cabinet secretary was acting within the constitution in publishing legal notice No.35 of 2020. However, as it is always said, law is quite straight forward until you bring in lawyers. It is possible for same set of facts to have two totally divergent and equally compelling interpretations. Can the constitutionality of the legal notice number 35 of 2020 be challenged?

Article 94(6) of the constitution aims to curtail parliament from giving carte blanche powers to another entity to legislate. Thus the fact there is an act of parliament authorizing another entity to legislate does not necessarily mean that such enabling legislation passes the constitutional test. Article 94(6) clearly states that such enabling Act must specifically meet the following criteria:

- a) The Act must specify the purpose and objectives for which the authority is conferred.
- b) The Act must specify the limits of the authority
- c) The Act must specify the nature

and scope of law that may be made  
d) The Act must specify the principles and standards applicable to the law made under the authority.

Does section 6 of the VAT act 2013 satisfy the criteria set out in article 94(6) of the constitution. Deficiency or gaps in the Act in light of the constitutional benchmarks would mean that the legal notice number 35 of 2020 is null and void.

Let us analyze or break down section 6 vis a vis article 94(6) of the constitution. Does the Act specify the purpose and objectives for which the authority is conferred? Purpose is the reason or motive as to why something is done. Legislation is the role of parliament. When parliament delegates this role to another person, the reason for such delegation must be clearly outlined in the enabling Act. In a nutshell the Act needs to bring out clearly why parliament has decided not to excise its constitutional role and instead delegated that duty to another entity. Is the Act clear on this? It is obvious that there are deficiencies with regard to this criteria and this predisposes the Act to constitutional challenges.

Does the Act specify the limits of the authority? The Cabinet Secretary can only vary the rate by not more than 25%. The boundaries are thus clearly set and as such there is no ambiguity with regards to the limits of the conferred authority.

Does the Act specify nature and scope of the law that may be made? The characteristics of the law to be made and the contours are unequiv-

ocally outlined in the Act. Does the Act specify the principles and standards applicable to the law made under the authority? Standards are guidelines, benchmarks or yardsticks against which something is measured. The aim here is to prevent arbitrariness. Thus in varying the rate, the cabinet secretary should act on some guidelines. Thus though the boundary is set at 25%, the Act should be clear on what the basis of the changed rate should be. What factors come into play in determining the changed rate? The Act falls short of this requirement making it hang precariously in case it is impugned on constitutional grounds.

While the foregoing discussion has been limited to section 6 of the VAT Act 2013, there are other tax laws which confer delegated powers to the cabinet secretary.

For instance section 41 of the income Tax Act CAP 470. Section 41(4) states:

The Minister may from time to time by notice declare that arrangements, Specified in the notice and being arrangements that have been made with the Government of any country outside of the Republic of Kenya with a view to affording

Relief from double taxation in relation to income tax and any taxes of a similar Character imposed by the laws of that country, shall, subject to subsection (5) but Notwithstanding any other provision to the contrary in this Act or in any other written Law, have effect in relation to income tax, and every such notice shall, subject to the

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provisions of this section have effect according to its tenor.

Deficiency in the drafting of such enabling acts could have adverse consequences. For instance, suppose the constitutionality of section 6 of the VAT Act 2013 is successfully challenged in court. Does a declaration of unconstitutionality have the effect of repealing section 6 or does the statute become inoperative from the time of the decision which declares it unconstitutional, or is the statute to be considered void ab initio from the date of the purported enactment of it by the legislature? If the declaration of unconstitutionality is to repeal section 6 from the date of the decision of the court, then anything previously done on the strength of the Act remains undisturbed. However, if the effect would be to render section 6 unconstitutional ab initio, then anything done on the basis of the section becomes null and void. This latter interpretation would obviously

ly open an unsettling Pandora's Box. This is because it would for instance imply that legal notice number 35 of 2020 sat on quick sand from the beginning. The earlier rate of 16% would be deemed to have all along been the law. The Commissioner of Kenya Revenue Authority can proceed and demand the underpaid VAT (between the date of publication of the notice and nullification of the same) from the registered persons?

Globally countries are now adopting measures to come up with a new normal in light of the realities of Covid-19. It is highly likely that the VAT rate will be revised upwards to 16 % (or even higher) and this could be easily done through a legal notice by the Cabinet Secretary for finance. Many businesses are currently experiencing an unprecedented low and as such, such an upward revision will have drastic and adverse consequences. It is critical in these very challenging times that

an upward revision of tax rates be preceded by robust and broad consultations with all stakeholders. Perhaps it is high time industry representatives like Kenya Association of Manufacturers consider moving to court and present a petition to challenge the constitutionality of section 6 of the VAT Act 2013. A successful challenge will in all probability mean the VAT rate will remain at 14% and can only be amended through a bill in parliament and thus there will be broader input from the public. On the other side of the coin, the cabinet secretary for finance should consider presenting a bill to amend section 6 of the VAT Act to safeguard it against potential assault on constitutional grounds

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# Total Quality Auditing in Achieving Internal Audit Excellence

*Where employees continuously improve their ability to provide products and services*

By Abdallah Mambo Dallu

**T**QA is a simple concept, which starts with one idea: Internal Audit functions should complement their traditional, required activities with an active role in the organization culture itself. It is all about being a proactive audit function, not a reactive one. The strategy is Total Quality Management (TQM) and applying it to internal audit to achieve what I call “Total Quality Auditing” can have dramatic results. The Total Quality Auditing approach can produce a more forward-thinking, customer-centric, improvement-oriented internal audit team. Sounds great, right? So how do we get there?

Proponents of TQM define the management framework as an organization-wide effort to establish a climate where employees continuously improve their ability to provide products and services that

are valuable to customers. The key concepts of TQM are:

- Customers define quality,
- Increased quality comes from the control of processes, and
- Quality improvement is a continuous, never-ending effort on the part of everyone throughout the organization.

All of these concepts can be applied to internal audit, but not without some significant shifts in perspective. Internal audit often is defined as an assurance and consulting activity designed to add value to its customers by reducing risks and improving processes, controls, and operations. In reality, though, internal audit is often stuck focusing on the past—collecting data and process information and preparing analysis and reports mostly on past failures. We’ve all heard the joke: Why did the internal auditor cross the road? Because that’s what they

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*After reflecting on my audit philosophy and what I have been doing throughout my career, I coined the term Total Quality Auditing (TQA), which is a blend of TQM concepts and reconsidered internal audit activities to produce an audit function that is more interested in serving its customers’ needs and improving the organization in the process.*



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*Internal audit’s customers are most likely already aware of their past failures. What they lack is a clear way to solve problems and continuously improve what they do in the future.*

did last year. In contrast, TQM focuses almost entirely on the future—anticipating and meeting the future needs of customers, improving products and services, and continuously enhancing processes to consistently meet those needs competitively.

After reflecting on my audit philosophy and what I have been doing throughout my career, I coined the term Total Quality Auditing (TQA), which is a blend of TQM concepts and reconsidered internal audit activities to produce an audit function that is more interested in serving its customers’ needs and improving the organization in the process.

### What Internal Audit Customers Want

When internal audit asks its customers what they want from internal audit (and hopefully they ask those questions regularly), audit customers generally say they want

help identifying and reducing the future risks of the organization. Second, and equally important, they often say they would like internal audit to help them improve the organization’s ability to provide quality products or services to its customers in the future. Internal audit’s customers are most likely already aware of their past failures. What they lack is a clear way to solve problems and continuously improve what they do in the future.

One of the cornerstone concepts of TQM is you cannot “inspect in” quality to a product or service. In audit words, you are not likely going to audit away risk or “audit in” improved controls or processes. A more quality-oriented methodology is required to make permanent and ongoing changes to the organizational culture.

Internal audit can be the organization’s knowledge leader, facilitating

change in the culture to one where everyone is tasked to do the right thing, in the right way. Internal audit can also create “constancy of purpose” (to borrow a TQM phrase) toward continuous product, service, and process improvement. Internal audit can develop a training culture where managers and supervisors constantly focus on improvement activities. And finally, internal audit can help design a culture where all employees are truly contributing to the quality and success of the organization.

### Six Points of Focus

My Total Quality Auditing Model has six points of focus for organization excellence that begins with ensuring meaningful ethics and standards of conduct; continues with listening to customer feedback, utilizing lean audit techniques, and balancing risk, audit, and consulting activities; and ends with doing it all with unprecedented leadership and grit.

**i) TQA – Ethics:** Focus on process changes necessary for an organization to establish and sustain an exceptional ethical culture. Ethical conduct as a stated value is important, but not as important as ongoing leadership and management practices that are aligned with ethical behavior.

**ii) TQA – Standards of Conduct:** Establish a framework for employee behavior and decision making that is consistent with the organization's values and goals. A no-nonsense approach to the establishment and administration of standards of conduct goes a long way to instilling and reinforcing the actions necessary for success.

**iii) TQA – Customer Feedback:** Provide the tools to ensure that internal audit efforts are directed at quickly identifying and time is spent listening to customers. Both TQM and TQA teach that the customer is the most important step in the process of delivering quality products and services.

**iv) TQA – Lean Auditing:** Ensure that techniques are applied that focus on customer needs, minimize waste, and produce timely solutions to real problems. It guarantees internal audit works efficiently and adds tangible value to the organization. The constant internal audit focus should be on doing more with less for customers and clients.

**v) TQA – Balance of Risk, Audit, and Consulting:** Offer a new perspective on the allocation of resources to ensure the most successful internal audit function.

Effective balance includes the careful planning of risks to be assessed, the proper time budgeting to efficiently audit processes, while always providing valuable insight and solutions to customers.

**vi) TQA – Leadership and Grit:** Address the audit leadership characteristics necessary to implement the Total Quality Auditing Model. It describes how determination and passion can assist auditors in delivering real value and earning trust and respect within the organization, all while maintaining professional standards.

#### Conclusion

TQM and TQA focus on the future. Don't manage internal audit by fixing yesterday's problems. Anticipate tomorrow's problems, emphasize future customer needs, provide new ideas, and satisfy customer needs. Make a commitment to improvement and hold everyone to it. Don't be a reactive internal audit function, be a proactive one.

Total Quality Auditing provides a roadmap for organization leaders, CFOs, chief audit executives, and auditors to drive past the audit practices of today, to arrive at a place where we can consider how it can be transformed in the future.

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Don't manage internal audit by fixing yesterday's problems. Anticipate tomorrow's problems, emphasize future customer needs, provide new ideas, and satisfy customer needs.”



## E-LEARNING

# Online Examinations

*The new way of examining for competence*

By Jim McFie

*More than 20 students taking the Master of Arts in Environmental Law and the Master of Arts in Environmental Policy were able to sit their examinations in the comfort of their own homes.*

**T**he University of Nairobi (UoN) recently announced that it had achieved a milestone by successfully conducting its first ever end of semester examinations online. This proclamation was made on Tuesday, May 26, 2020. More than 20 students taking the Master of Arts in Environmental Law and the Master of Arts in Environmental Policy were able to sit their examinations in the comfort of their own homes. UoN adopted online examinations in order to provide students with options to complete their

studies at a time when face-to-face exams were impossible because of the Covid-19 pandemic. Earlier, on May 8, 2020, Vice Chancellor Prof. Stephen Kiama stated in an address to staff and students that over 5,500 virtual classes had already taken place and were still going on. While addressing the quality of the online exams, Prof. Kiama said, "As a World Class university all our examination guidelines and procedures have been benchmarked against global best practice and we shall continue to ensure that they are reliable, consistent and of integrity." As part of the quality

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assurance process the university organized a series of training sessions in mid-March for faculty and administrative staff on eLearning. Many private universities in Kenya have been operating in a similar manner.

Some examining bodies have been running computer based examinations for some time. The International Air Transport Association (IATA) runs online examinations with remote supervision. The Chartered Financial Analyst (CFA) Institute is transitioning all CFA

exams to computer-based testing. The December 2020 exam is the last paper-based exam; exams in 2021 will be computer-based for all levels: registration for a computer-based exam is a two-step process: one must first register for one's exam and then schedule one's actual exam appointment. If one does not see one's preferred location, one is asked to check back: the CFA Institute continually adds appointment availability: each exam will be offered in scheduling windows of up to ten days, depending on location. However, the CFA Institute will not have remote supervision. Exams will be delivered in proctored exam centers with robust security measures in place. Each test center will closely monitor candidates for cheating in any form. Candidates will be provided with writing materials to use during

computer based exams, and one will still be allowed to bring a calculator to the exam center. Just as before, the calculator must be either the Texas Instruments BA II Plus or the Hewlett Packard 12C. The CFA Institute is committed to maintaining the rigor of the exam and the candidate experience. Beginning in 2021, every candidate who does not pass their exam will have to wait a minimum of six months to retake it.

The Certified Internal Auditor (CIA) designation is a qualification that is being increasingly acquired in Kenya. In order to become a CIA, one must complete the Institute of Internal Auditors' (IIA's) certification process, which includes passing a three-part exam: the CIA Exam is entirely computer-based and consists of three separate sections of multiple choice questions. Part 1 (the Essentials of Internal Auditing) has 125 questions and a 2.5 hour time limit while Parts 2 (the Practice of Internal Auditing) and 3 (Business Knowledge for Internal Auditing) each have 100 questions and a 2-hour time limit.

Another qualification that is often required by recruiters in Kenya, especially for internal auditor positions, is the Certified Information Systems Auditor (CISA) offered by the Information Systems Audit and Control Association (ISACA). ISACA was incorporated in 1969: there are approximately 151,000 CISA certified professionals worldwide. The CISA certification is about the audit of information systems. Another qualification which is focused on the implementation, operation and maintenance of secure information systems is the Certified Information Systems Security Professional (CISSP). There is an overlap between the CISA qualification and the CISSP qualification, but the primary focus is different. The CISSP is focused on the implementation, operation and maintenance of secure information systems. The International Information System Security Certification Consortium (ISC) was born in 1988: the CISSP qualification was launched in 1994 and has 136,500 certified professionals worldwide. This difference in numbers is due to the highly specialized nature of the CISA as compared with the CISSP. The CISSP certification is said to be

“10 miles wide and an inch deep,” meaning its domains cover the breadth of cybersecurity. This makes the CISSP applicable to nearly any job in the field, as opposed to the CISA certification which is suited to IT auditors only. To get started on the CISA qualification, there is an online registration process which enables one to register for an exam, purchase study aids and ISACA membership, which immediately provides significant exam-related discounts. The final step of the process enables one to pay online using a credit card or indicate that payment will follow by cheque or wire.

The CISA certification examination is one of four hours to complete 150 multiple-choice questions. Candidates are able to schedule their exam for any available date or time or location within their 365-day eligibility period. When scheduling an exam, candidates must select either online remote proctoring or an in-person testing center. Candidates who are unable to take their exam on their scheduled date are able to reschedule during their eligibility period if completed more than 48 hours prior to the original scheduled testing appointment. If one violates the Exam Day Rules or engages in any kind of misconduct one is subject to the following: (i) Dismissal or disqualification; (ii) Voiding of the exam; (iii) Revocation of ISACA membership and any certifications currently held; and (iv) Banned from taking any ISACA exam. The CISSP exam is now quite different. Since September 1, 2012, CISSP exams have been available only online. Candidates take computerized examinations via Computer-Based Testing (CBT) at local testing centers worldwide. All ISC credential exams are available via CBT at all approved Pearson VUE® testing centers worldwide. The difference is that the ISC has introduced Computerized Adaptive Testing (CAT) for all English CISSP exams worldwide. Based on the same exam content outline as the linear, fixed-form exam, CISSP CAT is a more precise and efficient evaluation of one's competency. CISSP CAT enables one to prove one's knowledge by answering fewer items and completing the exam in half the time. Each candidate taking the CISSP CAT exam

starts with an item that is well below the passing standard. Following a candidate's response to that item, the scoring algorithm re-estimates the candidate's ability based on the difficulty of all items presented and answers provided. With each additional item answered, the computer's estimate of the candidate's ability becomes more precise – gathering as much information as possible about a candidate's true ability level more efficiently than traditional, linear exams. This more precise evaluation enables the ISC to reduce the maximum exam administration time from 6 hours to 3 hours, and to reduce the items necessary to accurately assess a candidate's ability from 250 items on a linear, fixed-form exam to as few as 100 items on the CISSP CAT exam. The passing grade is 700 out of a possible 1000.

The story of the 2020 qualifying examinations of the Institute of Chartered Accountants in Ireland (ICAI) is different. Why? Because online examining is completely new. Over 6,600 Institute students have just completed professional exams online for the first time in the Institute's history with almost all students succeeding in completing their papers, while having their health protected and following government health policy requirements. A new platform that started as an unlikely contingency measure back in April 2020 successfully shouldered a full programme of professional exams a mere four months later; ICAI has established that it has a viable online exam platform at the ready, should it be required.

ICAI is quite similar to ICPAK: it has 29,000 members. The story behind the 2020 switch is interesting and would be of value to KASNEB. In February 2020, the routine examinations were planned for, with a tried and tested model based on traditional exam halls, invigilators, paper scripts and exam markers huddled together in dense concentration over the following weekends. But ICAI had as its strategic plan “digital first” as a guiding principle; some minor interim exams had already been done from November 2019 with the pilot finishing in April 2020, covering about 10% of all

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assessments. On Thursday, 12 March 2020, the Irish Prime Minister appeared live on TV to announce a lockdown for business and society, with the devolved government in Northern Ireland following suit soon afterwards. In the face of such uncertainty, the challenge set to the Institute was to ensure some form of exams to support the progression of students and the firms' training model, in a way that minimized the health risk to students, staff and other parties. For ICAI it initially appeared that rescheduled exams in mid-August was a long way away and the main exams might well carry on as normal; an E-Assessment alternative was developed as a back-up plan. The first step taken was to postpone exam dates, and this was communicated to all students. However, as the public health crisis escalated, the notion of students travelling to sit exams together in a traditional setting was soon out of the question. By May, it was apparent that the back-stop option had become the only option, and Institutes in Australia and New Zealand moved to place their professional exams online. Irish plans for a two-year, gradual move to online-only exams had to be rapidly accelerated. If exams were to go online, the profession's regulators, training firm partners and the

Institute were all determined to ensure the exam hall experience would be replicated in an online environment insofar as possible.

This meant ensuring the students could prove their identity, that they were alone during the exams, did not have any notes (unless the exam was “open book”) and mobile phones had to be out of reach. The Institute had already assigned international invigilation providers ProctorU to provide remote services for its April 2020 interim assessment and extended the arrangement for all main exams. In addition, a new bespoke exams platform was commissioned and developed by online exam providers Cirrus. Planning for the April 2020 interim exams for first-year students was used to good effect and rapidly scaled up for main exams in August and September, with many important lessons learned and issues addressed. A second special repeat interim exam had been organized as a precautionary measure and ended up being offered to a number of students. As a result, special sittings in case of unforeseen technical issues were included in the planning process for the August exams, to take place two weeks after the main exams. This provision created a huge additional workload for the examination development team, whose output of test, main exam and special sitting exam papers almost doubled.

The basic exams day process for students in April was carried forward into the main exams in Mid-August. Students were sent an initial link to commence the onboarding process. The student was then connected in-person with a remote proctor via the laptop camera, who took the student through a validation process and checking their immediate environment. Once the checks were complete the student could enter the exams platform. The exam time began once the proctor started the onboarding process. While this all appears straight-forward, in reality there were multiple complicating factors. With the exception of those in first year who sat interim assessments, students were entering professional exams in unknown territory, and these would be the first meaningful online exams they

had ever sat.

The viability of online exams depends to a huge degree on the strength and consistency of broadband and Wi-Fi signal, something that was clearly outside the Institute’s control. In Ireland, many locations outside urban areas have weak or intermittent broadband, perfectly fine for work or leisure but insufficient to maintain an exam link for up to four hours.

Most students relied on their own laptops for the exams, some of which were either old, had many applications running in the background consuming broadband or had some malware or very limited performance speeds. All of these would have caused issues for students either to access the exam or to drop out of the exam repeatedly.

Where students were offered a laptop by their employer or offered an office location to sit the exam, employer firewalls often denied access to the exam platform. And the ProctorU interface required frequent updates to ensure the latest version of Chrome internet browser was in use. To address as many of these issues as possible, it was crucial to provide as clear a picture as possible of what to expect and how to avoid problems and to stay connected with stakeholders. A wide range of training materials and resources were produced quickly and issued to students, including training videos, exam questions and solutions and sample papers to complete on the new platform.

*Students also had the chance to join a trial onboarding process to help assess the suitability of their laptops and web connectivity and to resolve any technical issues. Students were further provided with up to five practice papers to complete. Regrettably, there was only limited engagement with these support services, with student take-up a week before exams at around 30%: students are students everywhere.*

Close contact with the larger training firms was maintained, and key employer stakeholders contributed. Intensive support services for students on exam day were anticipated and prepared. A process to deal with exam-day problems was

designed to enable the team to manage and escalate responses as needed. ICAI had asked students to familiarize themselves with the response sequence and this was largely adhered to. Taken as a whole, the new E-Assessment platform, the online invigilation and associated processes all progressed extremely well, with average completion rates of 98.6% for the first set of main exams for second year students, 99.6% for final year students and 99.5% for first year students. These are the highest rates achieved by peer institutes and is some way ahead of that achieved by other accounting bodies.

Despite herculean efforts, of course there were some issues encountered and not all students had a faultless experience. The main issues causing problems were student-side broadband interruptions of varying degrees (80%) and firewall or hardware issues (10% each). It was to be expected that any difficulties would arise on the first day, and so it transpired, with a minority of students impacted with delays or some interruptions. In the main, these issues were addressed in time for the remaining exams that week. Where a small minority encountered serious faults, students were offered a place on special resit exams two weeks afterwards and this resolution mechanism worked well. Some students indicated that the typing and navigation functions within the exam platform were somewhat cumbersome and this will be refined in future. Overall, over the main sittings and additional special sittings 100% of students completed their exams on the new platform.

We in Kenya have to follow quickly what is being done elsewhere in the world so that ICPAK achieves its vision of being “a world class Professional Accountancy Institute”. We must do this hand-in-hand with KASNEB: what has been done in Ireland can, with effort, be done in Kenya.

*FCPA Dr. Jim McFie is a Fellow of The Institute of Certified Public Accountants of Kenya (ICPAK)*



# “What Can an Ant Teach Me?” I Hear You Ask

## *Lessons you don't need to pay for*

By Nelson Ogallo

**A** lifelong learner is a lifelong winner” says Matshona Dhliwayo. Generally, the easiest way to live life to the fullest is to learn from others. Others’ past failures and accomplishments. However, more challenging is the call to take advice from someone who has not yet benefited from their own solutions, like a homeless man giving a talk on ‘how to be a billionaire’. You are likely to ignore a mad man’s advice by the street because his life does not reflect the usefulness of his advice.

A story is told of a man who went to a certain town and parked his car then went into a grocery to shop. While shopping, a group of street boys came and attempted to remove the car wheels by loosening the lug nuts from the wheel but luckily, he arrived in time as they fled leaving

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*Ants though so small and seeming to be of no use on a surface value, fall into the successful category, and can teach us how they succeed time and again. If you think you know everything, there's nothing else to learn, until you learn...you don't know everything. There is a vast abysmal gap between man and ant - a tiny insect, too tiny to be seen yet rich with a wide spectrum of knowledge on how we can grow our professions and businesses.*

the wheels hanging. The gentleman was shocked and was wondering what he’d do next because leaving his car to go and look for a mechanic or the lug nuts, meant that it would be exposed to more vandalism. He kept walking round his vehicle, scratching his head for a solution until a mad man approached him and asked, “Why are you not leaving our town?” With a twinge of warning in his voice, the seemingly elite man answered the mad man, “Even if I tell you, do you think you can be of any help?” The mad man stood amazed but with an unlikely humility from someone of his nature, he answered, “Yes I can.” Though feeling uneasy to be assisted by a mad man, he decided to tell him for the sake of it, of course with zero expectations. “One of my car wheels has all its lug nuts loosened and stolen and I cannot move with it the way it is because it will come off. I am wondering what



to do.” The mad man responded with a smile, “that’s simple”. Get a lug nut from each of the other three wheels and use it to tighten this wheel and get moving until you get to the mechanic where you can replace the one lug nut missing on each wheel”. Most likely as a professional, business man or an entrepreneur, you have never imagined there could be lessons embedded in an ant’s life that can spur your profession or career path but like the wisest King in the Bible, I implore you to; Go to the ant----- consider her ways, and be wise: Which having no guide, overseer, or ruler, Provides her meat in the summer and gathers her food in the harvest.

Ants though so small and seemingly useless on the surface, fall in to the successful category, and can teach us how they succeed time and again. If you think you know everything, there's nothing else to learn, until you learn...you don't know everything. There is a big gap between man and ant- a tiny insect, too tiny to be seen yet rich with a wide spectrum of knowledge on how we can grow our professions and businesses.

### 1. Ants are Driven by Purpose

In a chase between a lion and deer, many times a deer wins. Because a lion runs for food, and deer, for life. Purpose is more important than food. By purpose I mean having a

clear long-term objective or goal which shapes everything you do in your profession or organization. For instance, one ant’s sole job description is to find food for the colony. This is his purpose, and all that he inputs his time and energy into, and so it compounds the chances of success for the whole colony of ants. As a professional, besides the general objective of the organization you work for, or the business you run, you need to set your personal achievable objectives that contribute to the success of the whole larger body. Unless you are paid to respond to Facebook messages and twitter within an hour, more important activities should precede your level of engagement with social media. It is only fair that you minimize your engagements with activities that draw you away from your focus. A purpose driven individual will achieve more as compared to one that works haphazardly and without a goal.

### 2. Ants work as a team.

Martin Luther King Junior in cognizant of the indispensable ability of unity in life said this; “We must learn to live together as brothers or perish together as fools. Ants are team workers and work together to achieve something great. For you to achieve something substantial in life, you must align yourself with others who can help propel you to another level. Our synergies are channels through

which we build our not only ourselves but others too. Most successful organizations in the world know how needful it is to work as a team. Ants have an unbelievable spirit of unselfish unity. If they find out something eatable immediately they pass on the message to others. Shared success is sweeter than earning success as a lone ranger. Why most vulnerable animals in the wild walk in groups is because they believe in the common phenomenon that we are better together. Everything an ant does is for the benefit of the colony and they will work until they are done. Almost on auto pilot each ant knows their duties and they do everything they can to get those duties completed. Some are tunneling, some are moving material and others are looking for food. If any of the ants is not working with the team it will be noticed. Be part of a team and you will reap big.

### 3. Ants have a time to rest and a time to work

Anna Louisa walker Coghill in 1886 understood the essence of time and wrote a poem entitled work for the night is coming. In one of the stanzas she says;

Work, for the night is coming,  
Work through the morning hours;  
Work while the dew is sparkling,  
Work ’mid springing flowers;  
Work when the day grows brighter,

Work in the glowing sun;  
Work, for the night is coming,  
When man works no more.

Ants must work with the natural seasons. So, in summer they gather their food and in winter they hibernate to conserve energy because of the lack of food. Like ants, you not only need to know when to begin but also when to stop. Burnout is when you have come to the end of yourself and suddenly give up and withdraw from all kinds of work. You've simply had enough. For this not to happen you need to schedule in periods of rest, especially after the completion of a major project. We have had cases in the recent past of people dozing off while giving presentations because they spent the entire night preparing reports to present before a panel. The worst-case scenario is when man is led to cut short his life because of fear of scorn for not having completed a task. All this boils down to the fact that there is need to work like ants. Naturally many people are active and productive in the wee hours of the morning than in the late night. It would be viable to know like ants when your summer is and when your winter is. This will help you spread your workload within your best seasons. The active nature of ants should attract us to be forewarned and active in time and know when to pull back and relax when worn out.

**4. Ants think big**

Now ants can seem like one of the most insignificant insects on the planet because of their size. But the colonies they build and the contribution to their society is extremely significant and great.

What big dreams do you have for your future? Pursue those. No

matter how small you think you are, you should always pursue something bigger than yourself. Ants are not scared of heavy tasks, but rather take pleasure in lifting these objects to their colony. If we don't look at how big a task is, we would easily accomplish tasks that seemed insurmountable. Though you may not have the best of abilities, you better think big like ants.

**5. Ants are persistent**

Whenever an obstacle is placed in the way of Ants, they always find a way round such obstacles. Napoleon said, "Victory belongs to the persistent" We must never give up so easily in the face of obstacles. There are many obstacles in life that must be overcome. As long as you keep trying you will get past whatever is blocking your path. Failing to achieve your objectives is not fatal but an opportunity to amend where you did not do your best. Try till you can try no more and you will make it through.

**6. Ants are well-organized**

There are three kinds of ants in a colony: workers, queen, and males. Each kind of ant does a different job. They are so well organized, that they carry out their entire task through division of labor. Nothing is left undone in the Ant colony, because of the well-organized structure, which has already been put in place. This is a serious lesson for individuals who are not organized. For the success of your business entity, you must be organized in all aspects of your work. The essence of departments in an organization is to have individuals contribute their efforts where they are best suited. By having everyone everywhere, we are bound to fail big time.

**7. Ants have an amazing sense of discipline**

The sense of discipline among ants is amazing. Without a mistake they march one after another in a line. How pleasant is their marching sight! Without any dispute or accident, they move about in order. Think of man's spirit of division. Everywhere in life he finds loopholes to divide. He is more interested in division than in unity. Without a supervisor behind them ants do the right thing because they value doing right. In our spheres of influence either in organizations we work for or in our own businesses, we must endeavor to be disciplined even without a third eye keeping watch over us. Those balancing books, those approving payments and tenders etc. must apply self-discipline as applied by ants. Ants don't jump the line; they follow patiently until their turn comes.

Watching ants at work and play is amazing for us. The lessons from these tiny ants are great challenges for modern humanity. The lessons they teach should lead us to enlightenment and unity. They should enable us to handle the resources of nature very seriously. Follow them and you will succeed!!! Ants make the most of every opportunity. The problem is that many people live their lives without taking advantage of their opportunities.

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# Nairobi Centre for International Arbitration

*Where disputes meet resolution*

By Accountant reporter

**F**or most people, in Kenya, the first port of call whenever there is a disagreement, is the court. Yet there are means other than the court process which are, quicker, less expensive and less stressful. We have many disputes in court that need not have ended up there. Besides, a court may manage a tiff but never a lost relationship.

Arbitration is a private process where disputing parties agree that one or three individuals make a decision about the dispute after receiving evidence and hearing arguments. Arbitration is different from mediation because the neutral arbitrator has the authority to make a decision about the dispute ([americanbar.org](http://americanbar.org)).

It is worth noting that, the Nairobi Centre for International Arbitration (NCIA), is a favorite go to place for alternative dispute resolution (ADR). NCIA, among other things, resolves cases, preserves relationships, and makes conflict resolution amenable, lighter, and less litigious. It has been known to aid arguing parties to continue doing business with each other, while determining a dispute between them. Studies show that 95 percent of cases are usually resolved through means for dispute resolution other than a court of law. This, incidentally, is where NCIA comes in.

As an institution with a mandate to promote alternative dispute resolution the Centre is poised to position Nairobi as a preferred destination

for dispute resolution services. The Offices for the Centre are located at the Cooperative Bank House where the ADR facility is open for use by parties.

The Accountant spoke to the Registrar/CEO of the Nairobi Centre for International Arbitration Lawrence M. Ngugi on a wide range of issues regarding how the NCIA works and how it is helping people as a place for Alternative Dispute Resolution (ADR).

## **Why was the Nairobi Centre for International Arbitration set up in 2013?**

The Nairobi Centre for International Arbitration (NCIA) was established in 2013 by an Act of Parliament the Nairobi Centre for International Arbitration Act No. 26 of 2013 as a Centre for promotion of international commercial arbitration and other alternative forms of dispute resolution. This was partly informed by Vision 2030 Political Pillar.

## **Is settling a legal problem between two parties quicker, cheaper and less stressful than going to court?**

Yes, because a dispute is really owned by parties to the dispute. They understand the genesis and the circumstances, and they possess the will to solve it. When they are unable to agree on a solution, they give someone else permission to resolve it. Remember, the further away a resolution gets from a party, the longer it takes, the more expensive it becomes, and the more stressful. It is always good to seek ADR first. A court is where people

*Mr. Lawrence M. Ngugi,  
Registrar/CEO of the Nairobi Centre  
for International Arbitration*

should take disputes as a last resort.

**Are decisions arrived at by the arbitration process enforceable in law?**

Yes, the award rendered by an arbitrator is final and binding. Parties can either honor the award voluntarily or apply to the High Court for enforcement.

**What are the experiences with contesting parties?**

No one case is the same. Each case has its dynamics. One common denominator is the disagreement because they see things differently. The substance could be different depending on the case.

**Are contesting parties becoming more understanding of the process or are they becoming less understanding?**

What is demonstrated today, is that there is a greater awareness of arbitration and its benefits. A growing number of cases referred to as disputes go to court but the court decides they should be brought for arbitration instead.

**Do you sometimes have cases where one party is clearly in the wrong but simply fails to accept the facts?**

Disputes belong to the party. They define what is right or wrong. As arbitrators, we just facilitate them to arrive at a decision that suits them. ADR is not so much about who is right or wrong. There is give and take that can be a good settlement that both can live with. Apart from arbitration, we also try to reconcile.

**Are the arbitrators able to deal with cases with the same professionalism that judges in court do?**

Why not? A judge is a public officer and there are certain rules of conduct. There is a certain level of professionalism that guides you. There is a code of conduct of arbitrators, and their decisions will eventually be enforceable by a court of law. So there isn't any real difference in the way they handle disputes. Judges play their roles and so do arbitrators. They follow the rules set out for them.

**Are more people using your services? Is the number constant or are fewer people using your services**

**over time?**

People are getting to appreciate what arbitrators do and cases are increasing by the day. It is a growing trend. In terms of the cases we are handling, we are dealing with about 60 at the moment.

**How can one be appointed an arbitrator?**

Where one has acquired expertise in arbitration, understands the art of considering material relied upon by the parties and determine a dispute s/he can be appointed. When handling cases, the appointment of the arbitrator is made by mutual consent of all the parties to the dispute. All in all, there is an additional benefit of training or qualification in arbitration.

**Some members of ICPAK believe that accountants would be good arbitrators: could you give very precise advice as to whether this is possible, what would an accountant do to be appointed an arbitrator, and what skills would s/he have?**

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**We are ranked among the top 5 on the African continent, this has happened within 5 years.**

An arbitrator can have primary education in any field or discipline. That can be an added advantage in relation to a particular dispute. For example, if the case is related to his profession, like a case involving finance, taxation, audit, etc. accountants' skills can come in handy. However, training in arbitration, experience, professionalism an ability to organize, are necessary traits for this job. An accountant can have an edge here if, in addition to appropriate training, the case requires issues relevant to his expertise to be resolved. It could be some financial settlement which an

accountant can deal with. All players should possess the general skills of arbitration, but arbitration is conducted by people from diverse professions. They include experts in valuation, quantum, law, and so on. If a case calls for an expert, it becomes necessary to bring him/her on board to explain a certain angle of the dispute. Costs can be greatly reduced where an arbitrator has knowledge of the subject.

**Cases taxpayers have with KRA can now be settled by arbitration: could you give a full picture of what has happened to date, especially whether KRA and the taxpayers involved have accepted arbitration decisions?**

Many cases are settled through mediation as opposed to arbitration; from this KRA developed internal resolution methods under the Tax Procedures Act that allow parties to opt for mediation. It has recorded settlements of several cases through mediation showing they have confidence in the system. It is now fully entrenched.

**Do other government departments use the services of arbitrators?**

Yes, they do. Government is the largest consumer of dispute resolution services.

**The name of your organization is the "National Centre for International Arbitration" "Do you deal with cases from other countries, and if you do, are they as numerous as those in Kenya?"**

We do, we promote international commercial arbitration. Most foreign investors are reluctant to refer disputes to national courts, they want something more familiar. In providing arbitration services for international disputes we act as an appointing authority and also administer the case. International arbitration allows the parties to avoid local court procedures. It has its rules and its own non-country-specific standards of ethical conduct. The rules can be further embedded in arbitral rules that may be adopted by the parties. We are part of a global system of arbitration Centres. We also collaborate with other Centres to broaden our reach such as the partnership between 5 Centres in China and 3 in Africa forming the China Africa Joint Arbitration Centre (CAJAC).

**If the NCIA were to compare itself with similar organizations around the world, how would it rank?**

We are ranked among the top 5 on the African continent, this has happened within 5 years.

**Does one find that Kenyans and other users of your services act differently from persons in other nations?**

One of the dynamics of international cases are cultural differences like language. Certain cultures are more conciliatory; they are averse to litigation (they avoid fighting out the dispute). Others are adversarial; they like to fight out a dispute. Language can play a big role in international disputes. Some are more familiar with the main languages; French, Russian, Chinese or English. Each case will be unique and culture can play a big role in how disputes are solved. Legal systems are different. There is for example, common law which is the English approach and there is civil law. These factors will play out in the life-cycle of the dispute.

**Is there any advice you could give us which would make us more aware of the fact that accountants should refer disagreements to the NCIA?**

We belong to a culture that believes 'let us meet in court' yet we have many disputes in court which

should never end up in court.

Unknown to many, only 5 percent of disputes are handled in court. 95 percent are handled by you and me. The reality on the ground is different. Accountants should see alternative dispute resolution as a process that is close to them. It should be clear that there are other appropriate ways of resolving our disputes without going to court. A court may solve the dispute but what happens to the relationship? The idea should be to let us help them solve their disputes while keeping their business relationships going. Even as we adjudicate, the arbitrator can still deal with the 'I owe you here you owe me there' bit... that is how it should be.

There is no substitute to court in particular cases where public policy says we can go to court. But there are several disputes we can resolve ourselves. NCIA has done well since inception and has ranked 5th out of 72 well known institutions within the African continent.

**What is your plan going forward?**

I aim to have in place a national ADR guiding blueprint on how to engage the public to create awareness, to extend access, and cultivate a culture where alternative dispute resolution is the preferred mode of dispute resolution.

**Points to Ponder**

The NCIA offers a neutral venue for the conduct of international arbitration with commitment to providing institutional support to the arbitral process. In addition the NCIA caters for domestic arbitration and other forms of dispute resolution such as mediation. NCIA is an independent institution administered by a Board of Directors composed of professionals from the East Africa Region. The directors are accomplished practitioners with multiple skills that assure the proper functioning and administration of the Centre. The daily management of the NCIA is tasked to a Registrar/Chief Executive Officer with technical staff of the Secretariat.

Section 5 of the NCIA Act 2013 mandates the Centre to ensure that arbitration is reserved as the dispute resolution process of choice as well as to organize international conferences, seminars and training programs for arbitrators. Furthermore, the Centre is mandated to provide training and accreditation for mediators and arbitrators and to educate the public on arbitration as well as other alternative dispute resolution mechanisms.

We provide case administration services with our NCIA Arbitration and Mediation and training of Arbitrators and Mediators.

**Our Virtual Training Calendar.**

**Become an Arbitrator or Mediator.**



Pursuant to Section 5 of the NCIA Act 2013, the Centre is mandated to provide training and accreditation programs for mediators and arbitrators and to educate the public on arbitration as well as other alternative dispute resolution mechanisms.

In execution of this mandate, NCIA is now offering accredited training programs for both Mediation and Arbitration geared towards the realization of the Centre's vision of being the Premier Centre of Choice for Alternative Dispute Resolution.

DATE:	ACTIVITY	DURATION	PLACE	COST (KSHS.)
27 <sup>th</sup> August, 2020	Introduction to Mediation	4 Hours	Virtual	20,000/=
29 <sup>th</sup> September, 2020	Introduction to Arbitration	4 Hours	Virtual	20,000/=
27 <sup>th</sup> October, 2020	Introduction to Mediation	4 Hours	Virtual	20,000/=
26 <sup>th</sup> November, 2020	Introduction to Arbitration	4 Hours	Virtual	20,000/=
25 <sup>th</sup> January, 2021	Introduction to ADR & Litigation	4 Hours	Virtual	20,000/=
22 <sup>nd</sup> -26 <sup>th</sup> February, 2021	Module 1 Mediation	40 Hours (5 Days)	Nairobi	60,000/=
30 <sup>th</sup> March, 2021	Introduction to Mediation	4 Hours	Virtual	20,000/=
27 <sup>th</sup> April, 2021	Introduction to Arbitration	4 Hours	Virtual	20,000/=
26 <sup>th</sup> May, 2021	Module 1 Arbitration	6 Months	Nairobi	80,000/=
26 <sup>th</sup> June, 2021	Introduction to ADR & Litigation	4 Hours	Virtual	20,000/=

# In Order to Be, Never Try to Seem

By Angela Mutiso

*Sustain the charm of your inner beauty, it only lasts forever. Age, status, physical appearance, power, position, energy level, everything changes with the time. Amena Saiyed*

*But above all, in order to be, never try to seem - Albert Camus, Notebooks, 1935-1951*

**T**he most beautiful people we have known are those who have known defeat, known suffering, known struggle, known loss, and have found their way out of the depths. These persons have an appreciation, sensitivity, and an understanding of life that fills them with compassion, gentleness, and a deep loving concern. Beautiful people do not just happen." Elisabeth Kubler - Ross

Why do many people habitually guarantee their physical appearance is great but don't give a damn about their inner beauty? Fay Weldon, English author, essayist and playwright famously said beauty is the first

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*Why do many people habitually guarantee their physical appearance is great but don't give a damn about their inner beauty? Fay Weldon, English author, essayist and playwright famously said beauty is the first present nature gives to women and the first it takes away.*

present nature gives to women and the first it takes away.

While it is a good thing to ensure you are neat and clean at all times, your inner beauty in most cases, is what truly defines you. A man who had been married for 40 years once confessed to his longtime friend that he had come to appreciate his wife only much later in their marriage. As years went by, he was pleasantly surprised to note that she was refining beautiful traits he had admired during their courtship, he was, now enjoying her warm heart every day.

**What constitutes inner beauty?** Is it etiquette, eloquence, self-respect, a positive demeanor, money, kindness? What is it? Is it all these things? While it is hard to pin down anything in particular, one thing is certain, we are all capable of being the best we can be and that is what we should strive to do. For instance, we all have talent, these are God given skills we must use to better ourselves and those with whom we relate. We can maximize the use of these skills by finding out what we are good at and putting it into good

use. As you do that, make sure you are not stuck in the past, and that instead you are cultivating your skills every day.

The renowned author and Pastor of America's largest church – Lakewood Church in Houston Texas, Joel Osteen, says in his book – become a better you that too often, we allow experiences from the past to keep us from pressing forward. Perhaps a business partner, a coach, a relative, or a friend said, “Hey do you really think you can do that? Maybe that opportunity is not right for you. What if you try and fail? What if it doesn't work out?” These negative words may haunt you and stymie your progress in pressing forward. Understand that none of those statements can change your potential or the inside. It is still in you. He counsels; don't allow other people to talk you out of using what God has given you and doing what you know God wants you to do. So what qualities do you need to nurture to enhance your inner beauty?

**The power to communicate** – Good verbal and written communication skills will enable you to deliver and understand information quickly and accurately. Novelist Arnold Bennet said most of the frictions of daily life, are caused by irritating sounds and habits of voice and speech.

Quoting him in her book speech can change your life, Dorothy Sarnoff, says speech deficiencies can result in loss of jobs and canceled business deals. They can torpedo international conferences, and break up homes. Your speech image can make people decide whether they want you to run their business, be their doctor, represent them in congress. It helps them make up their minds whether they would buy a used car from you, or invite you to the house to become better acquainted.

**Fast and pray whenever you can** Because we live in a culture that increasingly leans toward commercialism, materialism, and secularism, it is not always easy to keep the soul nourished says vibrant life. It says the next time you are asked to pray urgently for someone in difficulty, consider combining your praying with some fasting. In

addition, be the living expression of God's kindness; kindness in your face, kindness in your eyes, kindness in your smile, kindness in your warm greeting.”

**Etiquette** – Which is the customary code of polite behaviour in society or among members of a particular profession or group. Show gratitude, listen when someone is talking to you, have a firm handshake, smile, and be courteous, open doors and wait to be welcomed or allowed to sit before doing so.

**Respect** – Remember, social distancing is important, say sorry when you are in the wrong, listen and be present. Be sensitive to other's feelings.

**Love** – Attach a lot of importance to friendship. Make time for people, nurture friendships, do more than is expected of you, lighten someone's load, do not sweat the small stuff, be genuinely interested in the other person's welfare, and be peaceful and appreciative.

**Try to see the good in others** – When you choose to see the good in others you end up finding the good in yourself. In his book don't sweat the small stuff, Richard Carlson says whenever we are dealing with bad news, a difficult person, or a disappointment of some kind, most of us get into certain habits that don't serve us very well. We overreact, blow things out of proportion, hold on too tightly, and focus on the negative aspects of life. When we are immobilized by little things – when we are irritated, annoyed and easily bothered – (our over) reactions not only make us frustrated but actually get in the way of getting what we want. We lose sight of the bigger picture, focus on the negative, and annoy other people who might otherwise help us. Find work – Almost any type of work is better than no work. Know your talents and passion and see how you can get money from them. It will keep you busy, active and cheerful.

**Physical appearance** - There's a lot a person will imagine about you based on how you look — from how trustworthy you are to whether they can keep you as a friend...Your appearance can also reveal things about your health, or state of mind.

**Exercise** - "Exercise; getting the heart rate up and improving blood circulation, can help to deliver oxygen and nutrients to the skin which keeps the skin healthy, promotes collagen production, and promotes new skin cells which keeps the skin looking glowing and is also helpful for anti-aging," says insider.com (health) So it is part of what you must do to get, and retain your inner and outer beauty.

**Decent friends** - Friendship has a strong associative power. Good friends are good for your health. They can help you feel good about yourself, to revel when you are happy and give you a shoulder to lean on when you are feeling low. Friends prevent loneliness and give you a chance to offer needed companionship as well.

**A good environment** - You tend to be happier when you live in a clean environment with fresh air, clean water and a beautiful landscape. Other people will want to emulate your example.

**Take care of your heart and health** - The food you eat can make a huge difference to your appearance and life. You could start with your heart. Jean Carper, talks about; the miracle heart...the ultimate guide to preventing and curing heart disease with diet and supplements...she points out that, admittedly, heredity plays a part in a predisposition to heart disease, but biology is far from destiny. There is overwhelming evidence that you can control whether you develop heart disease and whether it progresses. Exciting new research confirms daily that you can avoid or overcome heart disease with food and supplements and that it is never too late to make a difference. Take vitamin E for example. Check your blood pressure regularly and keep fit.

**Emotional intelligence** - This is the ability to understand, use, and manage your own feelings positively

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**Other people's money can be bitter. Canfield says most people wait to start saving until they have some extra money lying around – a comfortable surplus. But it doesn't work like that. You have to start saving and investing for your future now! And the more you invest, the sooner you will reach financial independence.**

in order to reduce a stressful situation. Emotionally intelligent people, communicate effectively, empathize with others, manage challenges and neutralize conflict.

**Self-confidence** - When you are self-confident, you tend to be more successful in life, you are more able to influence others, you are more positive and able to deal with stress, you gain more respect from your associates and you are generally ahead.

**Marry only for love** – if you do it for any other reason, you might have the rest of your life to regret your decision.

**Face what isn't working** – author Jack Canfield says if you are going to become more successful, you have to get out of denial and face what isn't working in your life. Do you defend or ignore how toxic your work environment is? Do you make excuses for your bad marriage? Are you in denial about your lack of energy? Your excess weight, your ill health... successful people face these

circumstances squarely, heed the warning signs, and take appropriate action, no matter how uncomfortable or challenging it might be.

**Financial independence** - You can consider yourself financially independent if you have enough income to pay for your living expenses for the rest of one's life without having to be employed or dependent on others. You can suffer many drawbacks if you have to depend on someone else for your well-being. No matter how generous or willing, someone is to take care of you, having financial independence gives you an edge in life, boosts your self-esteem and earns you respect. Be wary of anyone who wants to deprive you of this. Other people's money can be bitter. Canfield says most people wait to start saving until they have some extra money lying around – a comfortable surplus. But it doesn't work like that. You have to start saving and investing for your future now! And the more you invest, the sooner you will reach financial independence. Don't forget to always pay yourself first, never spend more than you save, and give away something to individuals and organizations that support spiritual growth. Live by example, use your freedom responsibly and your power wisely.

Finally, show up! Borrow a leaf from Fyodor Dostoevsky, (Crime and Punishment) who wittingly pointed out that the fear of appearances is the first symptom of impotence.

Angela Mutiso is a columnist with the Accountant Journal [cananews@gmail.com](mailto:cananews@gmail.com)



THE WAY

→→ TO GET ←←

Started

• IS TO •

QUIT • TALKING

AND

Begin doing



# The Joy of Eco-friendly Homes

*Building your own home is a powerful expression of self. It's an exercise of freedom*

By Angela Mutiso

**A**s we become more and more conscious of the benefits of living in a good environment, many people are looking for cheaper and healthier eco-friendly homes. Living in such a home, lessens your carbon footprint, helps preserve natural resources, and saves money on your energy bills.

After you experience the beauty of eco-friendly homes, their safety and incredible rewards, you may never want to build or live in any other home. Instead, you will be looking out for such homes to make your life better. In addition to making your energy cheaper, you can make your home more eco-friendly by using renewable sources of energy

to provide, heating, cooling, ventilation and lighting.

An Eco-house (or Eco-home) Wiki explains, is an environmentally low-impact home designed and built using materials and technology that reduces its carbon footprint and lowers its energy needs. Eco-homes are measured in multiple ways –meeting sustainability needs such as water conservation, reducing wastes through reusing and recycling materials, controlling pollution to stop global warming, energy generation and conservations, and decreasing CO<sub>2</sub> emissions. In addition to having minimal heating costs, you get to enjoy a healthy living environment.

An eco-friendly home should

encompass the following: Higher than normal levels of thermal insulation; better than normal air-tightness; good levels of daylight; passive solar orientation and glazing oriented south for light and heat. There should be thermal mass to absorb that solar heat; minimum north-facing glazing to reduce heat loss; mechanical ventilation with heat recovery (MVHR) system; heating from renewable resources (such as solar, heat pump or biomass); photovoltaic panels. Small wind turbine or electricity from a 'green' supplier; natural materials avoidance of PVCu and other plastics and rainwater harvesting.

It should also include grey-water collection; composting toilet; glass



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**An eco-house can incorporate design to have heating systems that can react quickly and efficiently to any changes in room temperature as well as providing a heat boost to the water temperature down-stream of the solar panels.**

that has two or three layers with a vacuum in between to prevent heat loss; (double or triple-glazed windows); solar panels or wind turbines. Others are geothermal heating and growing plants on the roof to regulate temperature, quieten the house, and to produce oxygen and a vegetable patch outside the house for some food. (Source Eco house Wikipedia)

Meanwhile, in its comprehensive analysis about energy homes, Wiki says further that buildings use up enormous amounts of energy. Home energy as well contributes to global warming. This energy is mainly for heating and lighting and therefore the aim is to design houses that are well insulated and make the best use of natural light. Increasing the amount of thermal insulation is the

main component of preventing energy loss. By installing insulation not only are you paying less money for heating bills, but you are also reducing exposure to toxic materials such as the carcinogen formaldehyde found in manufactured wood.

Electricity generating solar panels on the roof is good because orientation towards the sun also means that active solar systems can be fitted, both solar water heating panels and electricity generating solar panels on the roofs, further adding to the free heat and electricity gained from the sun. Interestingly, living in the house also generates heat. Active human beings can produce as much heat as a one bar electric fire. Heat recovery systems extract the warm, moist air from bathrooms and kitchens and take the heat out of the stale, damp air before venting it outside. The heat recovery system transfers this collected heat to fresh air coming into the building and distributes it to the bedrooms and living rooms, which creates fresh air at room temperature.

With the passive and active solar gains, insulation, draft proofed building shell and heat recovery system, eco-houses could be zero heat; that is, in theory, you shouldn't need to keep pumping heat into them from a central heating system. An eco-house can incorporate design to have heating systems that can react quickly and efficiently to any changes in room temperature as well as providing a heat boost to the water temperature down-stream of the solar panels. Having faced the house towards the sun, high performance windows are used to draw in as much light and warmth as possible. Sunlight then floods into the house and any heat generated is retained by a highly insulated building shell, draught proof windows and doors and thermal mass within the building.

Perceptions of costs are one of the main issues for many builders and owners. Builders of Eco-houses are also taking initiatives to reduce the costs associated with general homes. The main factors contributing to cost for any house includes land, planning, infrastructure, professional fees, accreditation, compliance fees, labour, materials,

market, and occupation. When building, remember one alternative to cement is lime. Lime has been used as a building material for thousands of years and although energy and CO<sub>2</sub> are used in its production it gently returns to limestone in time, taking in CO<sub>2</sub> in the process. There is also the use of reclaimed materials, particularly bricks, slates and roof tiles, to make use of the embodied energy within these materials. This can also help new buildings to blend in with their surroundings.

Meanwhile, take a look at Liberty Power, the superb company which today provides value to all types of customers, be it small business owners, large Fortune 500 companies, government accounts, or residential customers. Its initial focus was providing small and medium-sized businesses with the same low-cost energy and exceptional customer service typically reserved only for the largest energy users; it has made great strides today. It has some suggestions for you should you be considering an eco-friendly home;

Two of the largest costs involved in building a home are the foundation and the roof. Therefore, a ranch home with the exact same amount of square footage as a two-story home, will cost more money. Avoid this by building multiple stories, simultaneously improving your energy efficiency by reducing plumbing and duct runs. Furthermore, multiple story houses have a higher surface area to volume ratio than ranches, which means they expose less area to outside air and reduce the energy needed to heat or cool the home. Think about ways to use your land to your advantage. For one, laying a foundation on level ground is far cheaper than laying

one on a slope. If you must lay your foundation on a slope, consider building vertical by turning your basement into a garage. To maximize heating and cooling benefits, orient your house so the longest side faces the south to catch maximum sunlight. Build an overhang on your roof to shield the house from the higher-angle summer sun while still allowing the winter sun shine in.

Materials are a huge factor in the overall cost of your home. Low-cost options, such as natural linoleum tile for your bathroom or kitchen, can generate serious savings. Unnecessary external or internal design touches can be nixed. Done correctly, these choices can create a natural, everything-in-its-place sense of purpose for your home. Remember that good insulation is one of the easiest ways to lower your ongoing heating and cooling costs. A properly insulated home will require a minimal amount of heating or AC use, which reduces your home's carbon footprint while lowering your bills. Solar panels are a great way to reduce your ongoing electricity costs in an environmentally friendly way.

The orientation of your house plays a large role in the effectiveness of solar panels; as mentioned earlier, the greatest exposure should be to the south, allowing you to take advantage of the sun's angle in the northern hemisphere. Although it does require an upfront installation cost, the system can effectively eliminate your ongoing heating bill due to its low usage costs and high heat volume. Even better, especially for those with large families, it provides a nearly unending supply of hot water. One of the simplest ways to reduce your carbon footprint while lowering your energy bills is the use of energy star rated windows, fixtures, and appliances. These windows are

highly effective at insulating your home. There will always be room for improvement once your house is complete says Liberty Power. One of the ways to budget for this is with a fixed rate energy plan from a third party energy supplier. A fixed rate plan means you pay the same rate every month, as opposed to the typical variable rate plans, which shift with the market. Knowing what your energy bill will be ahead of time can help you put together a budget, and put away savings to invest in finishing touches and new home projects.

Some of what has been said here can perhaps partly be summed up by a foreword from the Infrastructure and Urban Development Co-Chair John M. Beck, Executive Chairman Aecon Group, Canada. He was speaking on Shaping the Future of Construction; A Breakthrough in Mindset and Technology during the World Economic Forum. He said among other things that; their work at the World Economic Forum has focused on how the Engineering and Construction (E&C) industry can take advantage of new technologies and work processes to move the industry forward. It builds on the Forum's four-year initiative on strategic infrastructure. This report is the first in a multi-year series that will look at the supply side of E&C. It is a call to action for the modernization of the industry and a roadmap for achieving that goal.

The report is the outcome of wide-ranging discussions across different sectors and locations; its recommendations derive from best practices not only of the E&C industry but of other industries as well. The report stresses collaboration, a holistic view of project management and information sharing – all critical elements for the future of the E&C industry.

He concludes that The "Future of Construction Project" requires the commitment and encouragement of many active participants in our industry – people who believe in a modern E&C industry that will benefit all.

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**Although it does require an upfront installation cost, the system can effectively eliminate your ongoing heating bill due to its low usage costs and high heat volume. Even better, especially for those with large families, it provides a nearly unending supply of hot water.**



# What is Sapping Your Energy?

*Living a structured life is the right way to live*

By Angela Mutiso

**H**ave you ever woken up in the morning tired and gone to sleep at night feeling equally fatigued? It is a fact that everyday life is leaving many people drained. Recent studies have shown that one in three of us admit we're permanently worn out because of the pace of modern life.

Another point to note is that many people are not planning ahead and therefore constantly exhausting themselves worrying about what will happen if they stop working or earning. Planning and living a structured life can make you happier and more energized.

Come to think of it, are you saving some of the money you are working for? When you wake up to go to work in the morning, who do you do

it for? Do you do it for yourself? Your family? Your boss? Who benefits from the work you do? Are you getting tired for the right reasons? Answering some of these apposite questions honestly, can make you more inspired and motivated, rather than tired and demotivated. If you are for example working hard every day, but not saving up some money, that is one sure reason you will start realizing you are going downhill when you sit down to tick off your gains at the end of the day.

Lack of focus, and an unstructured life can demotivate you. If you feel you are working for nothing, your exhaustion levels can rise high at the end of every month. This is more obvious after you do your math and realize that you are paying bills but not building up a nest egg. David Bach, author of the automatic

“*despite what others may want to think, the reason most of us go to work each morning isn't the company mission statement or even serving the customer. It's ultimately about us. When it comes down to it, the reason most of us go to work is for the sake of ourselves and our family. We go to work to protect those we love. Everything else is secondary. We are our first priority.*”

millionaire says rather intriguingly that despite what others may want to think, the reason most of us go to work each morning isn't the company mission statement or even serving the customer. It's ultimately about us. When it comes down to it, the reason most of us go to work is for the sake of ourselves and our family. We go to work to protect those we love. Everything else is secondary. We are our first priority. He however goes on to say that the truth is that we are not raised to put ourselves first. We are raised to be nice. We are raised to share. We are raised to help others.

He notes that these are good values but he also believes the old saying; that the Lord helps those who help themselves. So before we start out a financial plan. Let's really ask ourselves are you helping yourself? Are you really working for yourself? He says to figure out how many hours you worked for yourself (for example last week) you need to ask yourself how much money you saved last week. If your answer is zero, then you worked zero hours for yourself last week. Bach concludes that the problem with most financial planning and financial education is that it focuses on numbers and not on people's lives. He advises that instead of thinking just about percentages of income, think about hours of your life. Indeed, you need to think and act now otherwise mental fatigue will make you wear that same ugly, sad and tired look. Everyone feels tired at some point in their lives. The good news is that there are many things you can do to stay upbeat.

You can get tired for a number of reasons. They include:

**Emotional exhaustion;** this, explains Wikipedia is a chronic state of physical and emotional depletion that results from excessive job, personal demands, and/or continuous stress. It describes a feeling of being emotionally overextended and exhausted by one's work. It is manifested by both physical fatigue and a sense of feeling psychologically and emotionally drained. It further says that most emotional exhaustion research has been guided by Christina Maslach's and Susan E. Jackson's three-component conceptualization of burnout. This

model suggests burnout consists of three interrelated parts: emotional exhaustion, depersonalization, and diminished personal accomplishment. Diminished personal accomplishment refers to negative evaluations of the self. The level of emotional exhaustion which is experienced by an employee is influenced by a variety of determinants, such as: personal resources, coping strategies, emotional culture, and supervisory regulation of display rules.

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*The level of emotional exhaustion which is experienced by an employee is influenced by a variety of determinants, such as: personal resources, coping strategies, emotional culture, and supervisory regulation of display rules.*

Personal resources, such as status, social support, money, or shelter, may reduce or prevent an employee's emotional exhaustion. According to the Conservation of Resources theory (COR), people strive to obtain, retain and protect their personal resources, either instrumental (for example, money or shelter), social (such as social support or status), or psychological (for example, self-esteem or sense of autonomy). Wikipedia notes that the COR's theory suggest that people must invest resources in order to protect against resource loss, recover from losses, and regain resources. Therefore, those with greater resources are less vulnerable to resource loss and more capable of orchestrating resource gain, whereas, for those with fewer resources, ongoing resource loss may result in a rapid influential loss spiral.

**Grief and exhaustion;** one of the most common early symptoms of grief is extreme tiredness that makes even routine tasks difficult. Anna Whiston-Donaldson, whose 12-year-old son Jack drowned in 2011, drove this point home when she said "I had no idea that grief would be physically exhausting," "My body felt fragile and very tired." In her book *Surviving Grief... and learning to Live Again*, psychologist Catherine M. Sanders, PhD, writes that the bereaved can "become so weak that we actually feel like we have the flu...(and) this weakness frightens and perplexes us." (Source Everyday Health).

**Mental exhaustion is usually the result of**



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*people must invest resources in order to protect against resource loss, recover from losses, and regain resources. Therefore, those with greater resources are less vulnerable to resource loss and more capable of orchestrating resource gain, whereas, for those with fewer resources, ongoing resource loss may result in a rapid influential loss spiral.*

long-term stress. When you're continually dealing with things that activate your body's stress response, your cortisol levels remain high. Eventually, this begins to interfere with normal body functions, such as digestion, sleep, and your immune system. Common causes of mental exhaustion include: high-pressure, occupations, such as emergency responders and teachers; working long hours; financial stress and poverty; job dissatisfaction; being a caregiver for an ill or aging loved one; living with a chronic illness; death of a loved one; having a baby; poor work-life balance. (Source - health line).

**Physical exhaustion**, which is a punishing state of unremitting fatigue that leaves you physically drained, is a side effect that can be brought on by mental exhaustion.

So, really, taking good care of your body and mind can make it easier to recharge. It can give you reason to live, energize you and keep you well. Remember, your health is your wealth, and anything that comes between you and your health and wealth, is bad for you.

There are steps we can take to regain our energy because always feeling tired is not healthy. Being stressed can take a toll on your body, even if you don't have a very physical job.

There are some points to note here; no matter how exhausted you are, do not forget to exercise. As we already know, exercise has innumerable benefits. Also, your energy levels are greatly impacted by your diet. Experts recommend a mix of complex carbohydrates, such as whole grains and starchy vegetables, with lean proteins and healthy fat at each meal. Health line says you can, in addition, improve your blood circulation by taking a warm bath and scrubbing your body well, stretch your muscles for at least five minutes every few days and remember essential oils rubbed through the body have immense benefits. Always schedule a nap during the day to boost your energy levels. A good sleep of 8 to nine hours especially from age 24 to 60 is a good idea; sleep has been referred to as the ultimate recharger. You need to go to bed and wake up the same time every day. Enjoy your hobbies, build your spirituality and take time to enjoy nature. Note down all your achievements, keep good company and walk away from people who try to bring you down. Remember certain medications can sap your energy so can drugs and alcohol.

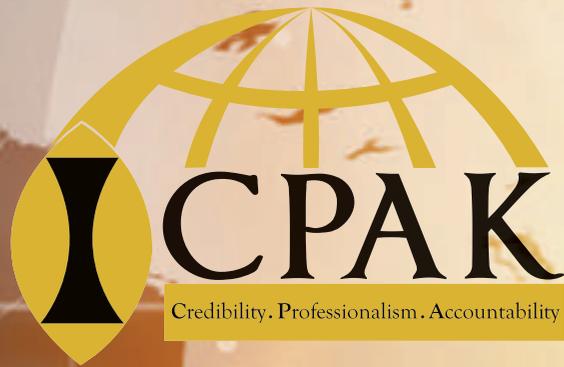
Taking time to rest and revitalize is a significant part of handling mental exhaustion. This can mean taking a long holiday, clearing your schedule for a few days, or even just

taking a bit of time for yourself each day. Take a walk when you are free, go to the cinema with a friend, this can lower your stress considerably. A doctor can suggest certain drugs to help you overcome these symptoms. Medications for mental exhaustion may comprise antidepressants, anti-anxiety medications and sleep aids.

#### Health tips

- Eat some strawberries every-day...they reduce inflammation, boost digestion, regulate blood pressure, protect your heart, enable one to have a healthy pregnancy, protect your heart and keep colds at bay.
- Count on carrots to help suppress bad cholesterol and raise good cholesterol. A Canadian test found that men who ate about two and half carrots every day, saw their cholesterol sink an average 11 percent. Jean Carper
- Eat fish at least three times a week
- Keep your health complaints for your doctor
- Avoid self-defeating statements
- Drink adequate water every day for good health and to prevent dehydration

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A lot has been going in and outside Africa lately, as we can discern from many recent events. Find out what Africa.com has for you and other business features below...

## The Notion that African Economies Should Produce more Locally is Gaining Traction



The Covid-19 pandemic has reinforced the notion that African countries should produce locally, rather than importing from abroad. Cipla, an Indian pharmaceutical company which holds a 51% stake in CiplaQCIL, used to import the drugs it sold in Uganda. In 2005 it entered into a partnership with Quality Chemicals Industries, its Ugandan distributor, and moved parts of the manufacturing process to Kampala. This kind of import substitution creates jobs, transfers skills and saves foreign exchange, as well as stirring patriotic pride. Many African countries adopted this approach after independence, with some initial success. Between 1965 and 1970 manufacturing output grew annually by 8% in Ghana, and 10% in Tanzania, rates which have rarely been matched since. But the boom didn't last. African countries became more dependent on imports, in part because they still needed to buy intermediate and capital goods. Industrial enterprises were inefficient and badly run after being shielded from international competition. In the 1980s, as Africa lurched into a debt crisis, the IMF and World Bank pushed governments towards exports, privatization and foreign direct investment. Import substitution is usually practiced on a national scale, but the growth of regional markets is creating a pan-African equivalent. Regional economic communities are deepening, and a continental free trade area is on the horizon. In Africa's Business Revolution, a 2018 book, McKinsey consultants forecast that "three-quarters of the growth opportunity in manufacturing lies in meeting intra-African demand and substituting imports".

SOURCE: AFRICAN BUSINESS MAGAZINE

## Africans in the Diaspora have kept Inflows into the Continent Steady Besides a Pandemic

The projected dip in remittances to African countries will not be as bad as initially feared. Early World Bank estimates in April had predicted a 23.1% drop in remittances to sub-Saharan African countries this year in the wake of economic shocks in the aftermath of the Covid-19 pandemic. But the bank's updated estimates portray a more positive outlook. Remittances to the region are now projected to decline by 9% in 2020 and 6% in 2021. By those estimates, total remittances to sub-Saharan Africa this year are expected to be around \$44 billion, down from \$48 billion last year. Globally, World Bank's latest estimates now project that, compared to 2019 levels, remittances to low and middle income countries will fall by 7% in 2020 and a further 7.5% in 2021.

SOURCE: QUARTZ AFRICA



## Freelancing in Africa: A Growing Trend on the Continent

Freelancing is rapidly growing across Africa. This way of working provides a variety of opportunities, for both men and women that run parallel with the economic dynamism that the continent is currently experiencing. An increasing number of companies are choosing this new model of employment. In a study conducted by financial services company Payoneer, around 21,000 freelancers from 170 countries around the globe were interviewed. The report shows that Africa holds 10.1% of the world's freelancers – and could continue to grow. Freelance work can be found across sectors: from economics and graphic design, to translation, writing, photography, and computer science. Younger generations are wanting to define their own career path and work hours, which translates to companies having difficulty in finding candidates ready to conform to traditional employment policies. The rise of self-employment in Africa today is structural. The economy of countries on the continent has changed, along with the means by which to create added value to work. The business models of traditional companies have been challenged by the double blow of the virtual economy and globalization, which are spreading rapidly throughout the continent. In addition, new professions have emerged alongside the development of the web economy over the past ten years. These professions, which are not dynamic in terms of job creation, have one thing in common: it only takes a computer and an internet connection to be able to get to work. We can work anywhere, at any time.

SOURCE: AFRICA.COM



## A Solution to Cater for the Demands of the African Consumer

Kenyan startup WAYO, an AI-powered customer experience management platform that collects, monitors, and evaluates in real-time, is helping retail companies predict demand for their products, and plans to scale into Nigeria shortly. Founded in 2015, WAYO allows retail organisations with large customer bases to obtain insights into the performance of their products and services, and accurately predict demand across all their touch-points promptly. This in turn allows them to derive action points and adapt to customer needs when it matters the most, thereby increasing retention and brand equity. Founder Ernest Makotsi told Disrupt Africa that the WAYO platform has three main use cases. Firstly, it allows retailers to evaluate their service in real time. Secondly, it cuts down on customer wait times. Finally, WAYO makes customer support simple, with its mobile-integrated help desk allowing retailers to solve customer-related questions quickly and simply, thanks to an AI chatbot feature.

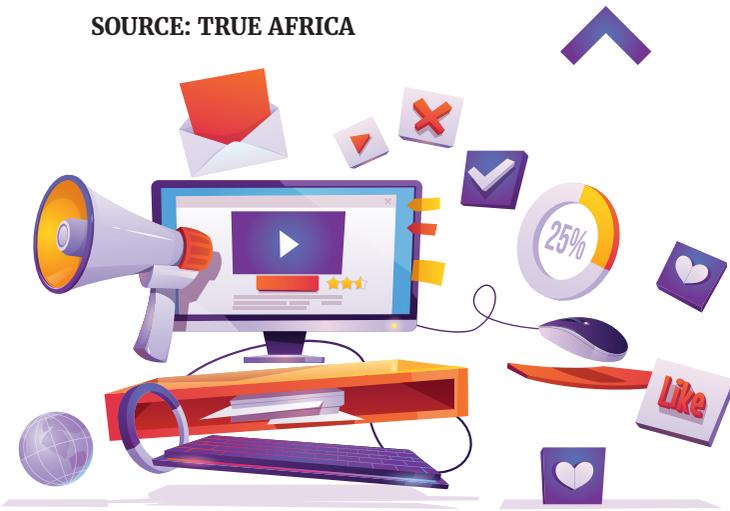
SOURCE: DISRUPT AFRICA



## Spicing Up Digital Ads in Africa

Advertising is a necessity for almost every business, and ad spending in the digital advertising market could reach \$355,784 million this year. The challenge is, many companies are flushing hard-earned dollars down the advertising drain without getting commensurate value. True Africa reached out to Veda Dean, a Mauritius-based digital entrepreneur and female entrepreneurship champion, to discuss the best advertising practices through technological innovation. Veda shared essential tricks and tips on how to ensure a higher return on ad spend, the interplay of AI and Adtech, customer engagement best practices, the future of Tik Tok, and more.

SOURCE: TRUE AFRICA



## Former Ghanaian President Rawlings Dies at 73

Ghana is remembering former President Jerry Rawlings, an iconic figure who died Thursday (12-11-2020) in the capital, Accra, at the age of 73. Rawlings twice seized power in military coups, alleging government corruption, on his way to winning two terms as president before leaving office in 2001.

Rawlings continued to hold political sway in Ghana while assuming diplomatic duties. He is credited with ushering in multiparty democracy in Ghana and boosting the country's economic profile through investments.

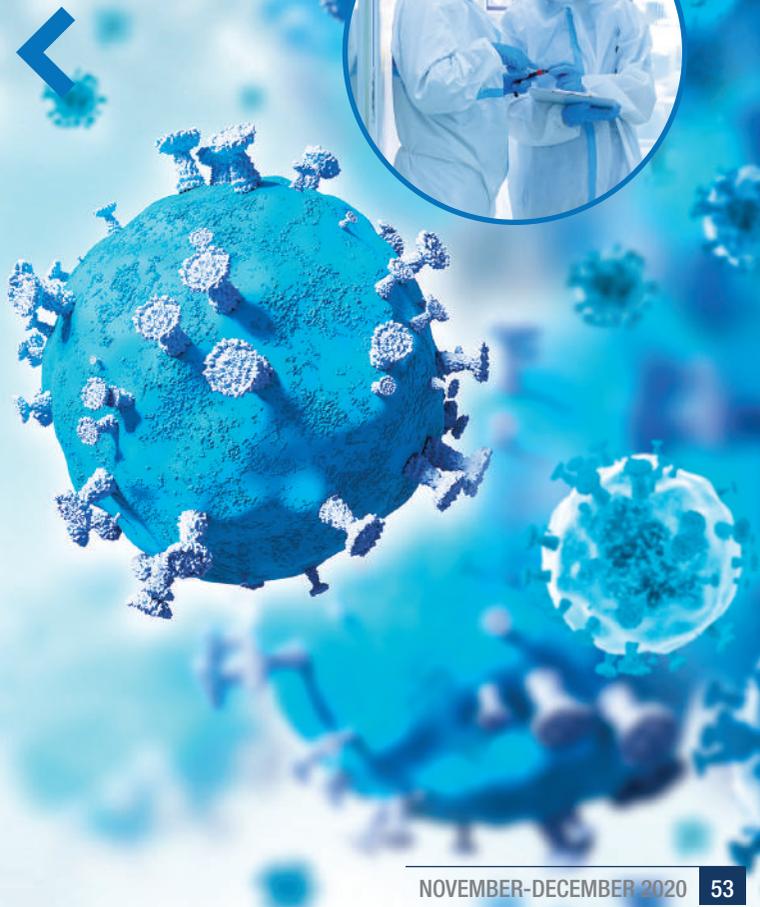
SOURCE: VOA



## 'Breakthrough finding' reveals why certain covid-19 patients die

In an international study in Science, 10 percent of nearly 1,000 Covid-19 patients who developed life-threatening pneumonia had antibodies that disable key immune system proteins called interferons. These antibodies — known as autoantibodies, because they attack the body itself - weren't found at all in 663 people with mild or asymptomatic Covid-19 infections. Only four of 1,227 healthy patients had the autoantibodies. The study was led by the Covid Human Genetic Effort, which includes 200 research centers in 40 countries. A second study by the same team, the authors found that an additional 3.5 percent of critically ill patients had mutations in genes that control the interferons involved in fighting viruses. Given that the body has 500 to 600 of those genes, it's possible that researchers will find more mutations, said Qian Zhang, lead author of the second study. Interferons serve as the body's first line of defense against infection, sounding the alarm and activating an army of virus-fighting genes, said virologist Angela Rasmussen, an associate research scientist at the Center for Infection and Immunity at Columbia University's Mailman School of Public Health.

SOURCE: NBC NEWS

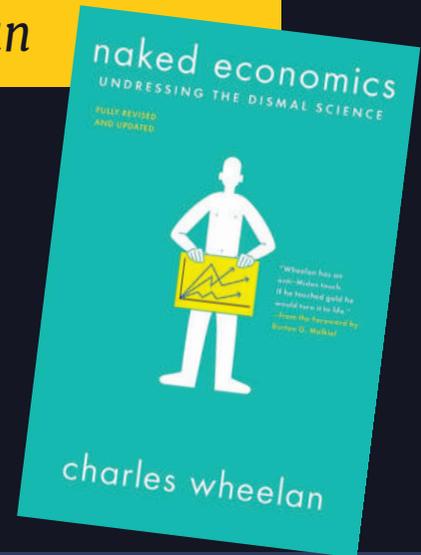




Reviewed by Derek Mutiso

## NAKED ECONOMICS: UNDRESSING THE DISMAL SCIENCE

by Charles Wheelan



**D**eciphering economic jargon, revealing the truths behind frequently quoted numbers, and answering the questions you were always too embarrassed to ask, the free and easy *Naked Economics: Undressing the Dismal Science* is a book by Charles Wheelan that aims to translate basic economic issues into a format that can be easily read and understood, even by people with little or no previous knowledge of economics. It's a piece that gives you the tools to engage pleurably and confidently in the profoundly relevant social science concerned with the production, distribution, and consumption of goods and services.

Wheelan gives life to the field of economics. Incredibly, he does this without having to use the traditional charts, graphs, or mathematical equations associated with it— an outstanding accomplishment to be witnessed firsthand. Economics is an extremely essential subject. There's no way to understand most of what goes on in the world without it. With Charles Wheelan's concise and laid back approach to economic writing, there's no reason

to dread it. This perpetual favourite for students and general readers around the world is way more than just a good read, it's a necessary investment, with a proven rate of return.

Citing real life examples, the book tackles real life challenges, and explains everyday occurrences; all the while, offering economic solutions to many of the world's problems. The author also makes a case for the market economy, explaining why it is the most efficient system for governing a country, and how it has steadily improved our lives over the years. Giving the US economy as an example, Wheelan points out how in 1971, a 25 inch colour television set cost the average worker 174 hours of wages . These days the average worker only needs to work for a few hours to buy a much bigger TV with more capabilities and better reception. America's life expectancy has climbed from 47 years to 77, infant mortality has plunged by 93%, and along the way, the US has managed to wipe out diseases like polio, tuberculosis, typhoid and whooping cough. The market economy deserves a lot of the credit for this progress.

Virtually every economy in the world falls somewhere along a scale running from pure market to fully planned. Most developed states are actually mixed economies because there is some government interference in the otherwise free markets .They are however said to have market economies because they allow market forces to drive most activities in the country. Characteristically, the government only intervenes in order to provide stability.

In his book, Wheelan speaks of an old pre-cold war story about a soviet official who visits an American pharmacy. The man, marvels at

“

*The soviet economy failed largely because of excessive government control.*

the brightly lit aisles, turns to his American counterpart, and says, ‘very impressive, but how can you make sure that every store stocks these items?’ , ‘a very interesting question because it betrays a total lack of understanding of how the market economy works. Stores sell the products that people want to buy and in turn, companies produce items that stores want to stock. The soviet economy failed largely because of excessive government control. Bureaucrats dictated everything – from the number of bars of soap manufactured by factories, to the number of people studying electrical engineering in Moscow.

The author goes on to discuss tested economic theories on incentives- he begins by posing an age old question, ‘why do people kill black rhinos?’ – Because they can make a lot of money relative to their risk of getting caught. A single rhino horn can fetch \$30,000 on the black market. In other words, the black rhino is worth more dead than alive to the impoverished people living in rhino habitats around Africa.

Sadly, as the black rhino becomes more endangered, the price for rhino horn increases, providing more incentive for poachers to hunt down the remaining animals. An effective solution, would involve aligning the incentives of the communities living in or near the rhinos’ habitat. Wheelan feels that part of the problem is as a result of rhinos being communal property rather than personal property, pointing out that a rancher would never allow his herd to fall from 65,000 to 2,500 in 30 years, he would instead have bred and protected the animals so that he would always have a large supply of horns to cater to the needs of the market, much like cattle ranchers manage their herds.

The author is of the view that, the market economy aligns incentives in the right way. Firms will always aim to make profit. They combine resources in such a way that they create value. These firms can only realise profits if they offer goods and services that people really need. In his book, Wheelan discusses externalities at length, defining the term as the difference between the

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Firms will always aim to make profit. They combine resources in such a way that they create value. These firms can only realise profits if they offer goods and services that people really need.”

social cost and private cost of a particular behavior. The book explains how smokers provide a benefit to the rest of us, by way of the externalities produced by smoking. According to the American Lung Association, the average smoker dies seven years earlier than the average nonsmoker, which means that smokers make contributions to Social Security and private pension funds for all of their

working lives but then don’t hang around very long to collect the accrued benefits. Nonsmokers, get to share the unclaimed money. In 2001, a report was released by Philip Morris on the Czech Republic (just as parliament was considering raising cigarette taxes) showing that premature deaths from smoking saves the Czech government roughly \$28 million annually in pension and old-age housing benefits. The net benefit of smoking to the government, including taxes and subtracting public health costs, was estimated to stand at \$148 million.

Naked economics is a clever and entertaining book with a wealth of knowledge that would benefit any reader. It has extended economic analysis to many areas of social and human behavior, Wheelan’s approach to economics is a welcome drift from the norm, touching on a wide range of issues without being over complicated. It is a good read for anyone wishing to refresh their memory reading up on economic principles or the curious reader wishing to learn about why things around us happen the way they do.

*Derek Mutiso is a regular columnist with the Accountant Journal [derekmutiso@gmail.com](mailto:derekmutiso@gmail.com)*



**A great tree has fallen, and Ghana is poorer for this loss.”**

*President Nana Akufo-Addo said in a statement following the death of former Ghanaian President Jerry Rawlings, who died on 12-11-2020 in the capital, Accra.*

“

“This is the man who, in 1983, when the economy of Ghana was down on its knees, was bold enough in spite of his revolutionary enthusiasm to go to the IMF (International Monetary Fund) and the World Bank to bring the economy back on track” ...And this is also the man who - in 1992, when everybody thought that he would resist the return to civilian democratic politics - did in fact give in to pressure and allowed the country to return to multiparty democracy. And so he is a very, very big figure in political history.”

*Kwesi Jonah, senior research fellow at the Institute of Democratic Governance. He was mourning former Ghanaian President Jerry Rawlings.*

“

**Look at the national numbers we are going to win this race with a clear majority and the nation is behind us. We’ve gotten over 74 million votes.”** *Former US Vice President Joe Biden*

“It is now confirmed that the covid-19 pandemic is furiously rampaging through our country, with daily rise in new cases. Deaths have also increased and hospitals are running out of beds. The situation is ballooning into a crisis and Kisumu is not spared.”

*Kisumu Governor Anyang Nyong’o explaining the severity of the covid-19 pandemic in the country and the new measures he was taking to curb the spread of the disease which had reached worrying proportions. Source Daily Nation*

“I’m not here to declare that we’ve won,” “but I am here to report that when the count is finished, we believe we will be the winners.”

*Former US Vice President (now President elect) Joseph R. Biden Jr. After he was declared the winner of Michigan and Wisconsin, two key swing states that President Trump won four years ago. Mr. Biden said this in a speech in Wilmington, Delaware. Source: The New York Times*

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*Former US Vice President (now President elect) Joseph R. Biden Jr. After he was declared the winner of Michigan and Wisconsin, two key swing states that President Trump won four years ago. Mr. Biden said this in a speech in Wilmington, Delaware. Source: The New York Times*

“This is one of the most important things we've learned about the immune system since the start of the pandemic,” ... “This is a breakthrough finding.”

*Dr. Eric Topol, executive vice president for research at Scripps Research in San Diego, who wasn't involved in the new study. He made these remarks after an international study in science, revealed that 10 percent of nearly 1,000 Covid-19 patients who developed life-threatening pneumonia had antibodies that disable key immune system proteins called interferons. Interferons are particularly important for protecting the body against new viruses, such as the coronavirus, which the body has never encountered, said Zhang, a researcher at Rockefeller University's St. Giles Laboratory of Human Genetics of Infectious Diseases. Source NBC News*

**As an industry, you important to our emerging economy. The boda boda community carries approximately 22 million people a day, that means close to a half of the people use this means of transport...The boda boda business supports directly or indirectly 5.2 million Kenyans who depend on the business. In every 10 Kenyans, one makes their livelihoods from the sector.”**

*President Uhuru Kenyatta speaking when he launched the Boda boda investment scheme that targets the 1.4 million riders across the country to save billions of shillings annually. Source The Standard.*

**Icpak calls for strict oversight to county funds**



President Uhuru Kenyatta going through the BBI document (PHOTO: FILE)

Institute of Certified Public Accountants of Kenya (Icpak) has supported the Building Bridges Initiative (BBI) proposal to increase revenue allocation for county governments.

Led by Icpak national chairperson Rose Mwaura and Western branch chairman Antony Opondo, the accountants called for strict regulation and oversight to ensure that counties don't misuse the funds.

**Counties overwhelmed by virus, says Oparanya**



Devolution Cabinet Secretary Eugene Wamalwa, Rose Wairimu from the Institute of Certified Public Accountants of Kenya, and Council of Governors Chairman Wycliffe Oparanya during ICPAK's 36th annual conference in Mombasa, yesterday. [Kelvin Karani, Standard]

Health systems in counties have been overwhelmed because of challenges that have been brought about by the coronavirus pandemic.

Council of Governors (CoG) chairman Wycliffe Oparanya said yesterday the problem has been compounded by lack of funds, which has made it difficult for county governments to equip hospitals as well as hire and train personnel.

The Kakamega Governor, who made the remarks when he addressed the 36th Institute of Certified Public Accountants of Kenya (ICPAK) annual conference in Mombasa, said counties were finding it hard to deal with the Covid-19 crisis.

**ICPAK warns of low taxes, ballooning wage bill**



President Uhuru Kenyatta receives the BBI report from the taskforce vice chair Adams Oloo at Kisii State Lodge on Wednesday. With them is ODM party leader Raila Odinga. Photo/PD/GERALD ITHANA

The Institute of Certified public Accountants of Kenya (ICPAK) is banking on amendments to the Procurement Act, 2015 to seal corruption loopholes in the public finance management in the country.

Speaking in Mombasa yesterday, ICPAK chair Rose Mwaura said changes will reduce they of public money.

“Policies and legislative frameworks that safeguard the utilisation of public finance in taming the runaway corruption are impressive.

**Minimum Corporate Tax will hurt businesses**



The introduction of a Minimum Alternative Tax at the height of the largest health and economic crises of our generation is simply confounding.

Globally, governments have taken steps to shield their economies from the economic storms and hurricanes of 2020.

Such steps have included tax moratoriums, wage support and even direct cash injections, in some cases.

These steps have been expensive, but the economic and policy consensus is that the alternative – closure of businesses (especially SMEs) and large-scale loss of jobs – would risk economic collapse from which it would take decades to recover.

**THE DEVOLUTION STUDY LAUNCH**

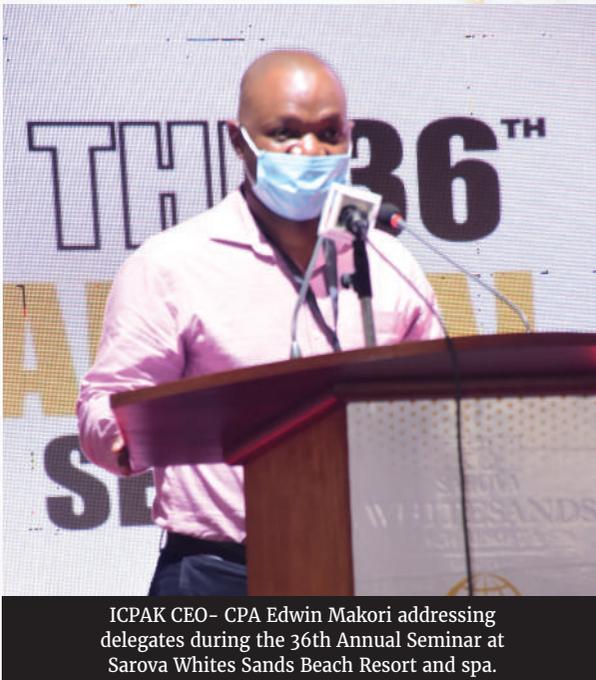


ICPAK CEO CPA Edwin Makori giving his opening remarks during the Devolution Study Launch at safari Park Hotel.



FCPA Rose Mwaura giving his keynote address during the Devolution Study Launch at safari Park Hotel.

**THE 36TH ANNUAL SEMINAR**



ICPAK CEO- CPA Edwin Makori addressing delegates during the 36th Annual Seminar at Sarova Whites Sands Beach Resort and spa.

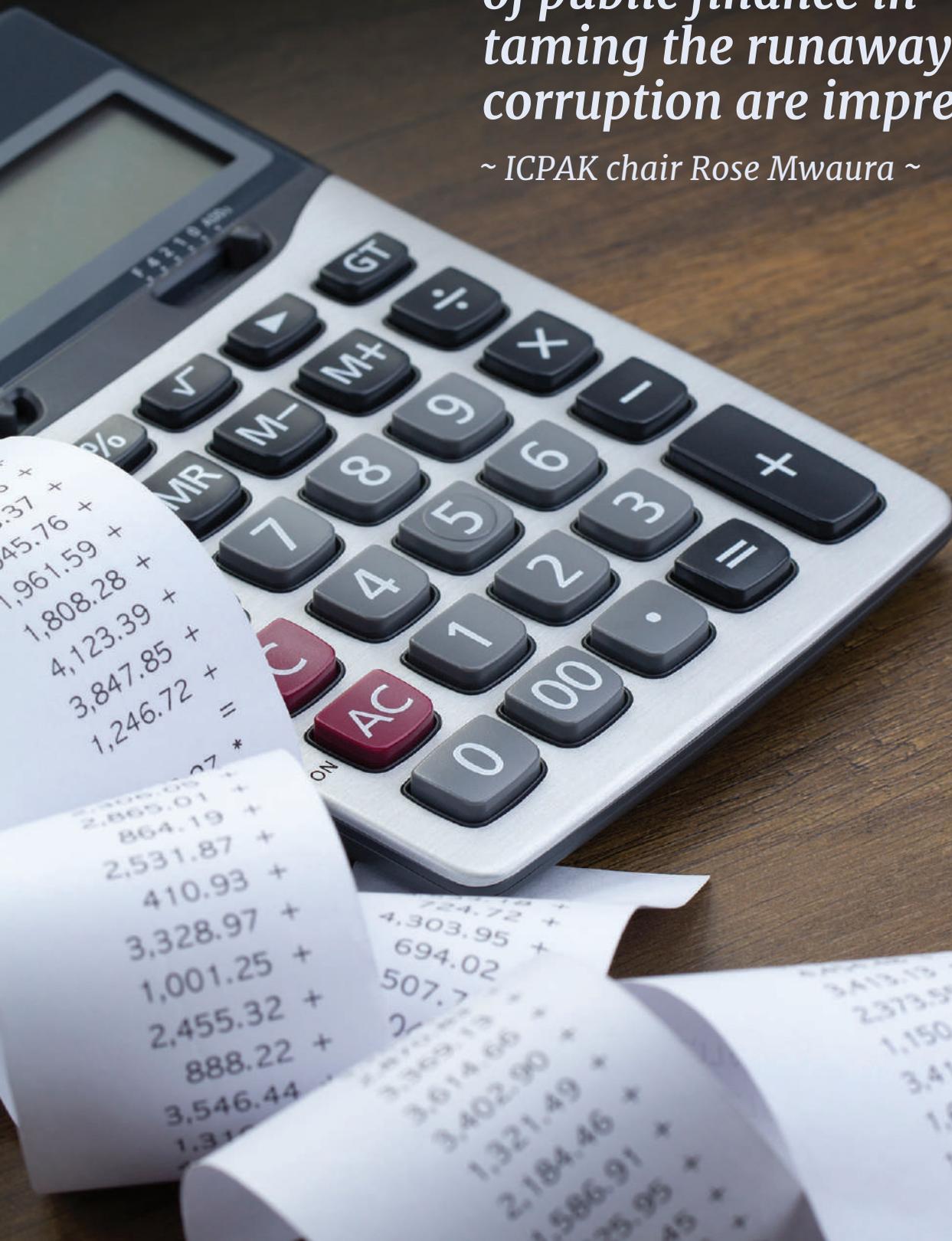


ICPAK chairman-FCPA Rose Mwaura delivering her keynote address at the 36th Annual Seminar at Sarova Whites Sands Beach Resort and spa.

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*Policies and legislative frameworks that safeguard the utilisation of public finance in taming the runaway corruption are impressive.*

*~ ICPAK chair Rose Mwaura ~*





# From Wastelands to Wow Lands

## *Recreating A National Park*

By *Alfriqwe Otieno*

**I**t is exciting to note that today, Kibarani dumpsite in Mombasa, has been transformed into a place to behold and marvel at. Many travelers to Mombasa in the last three years can still vividly remember the foul smell in the air, kilometers away as they entered the coastal city when bird species were all over the Kibarani dump site to scavenge for food amidst the garbage.

This is no more. The foul smell is gone and all scavengers are no longer in sight, the dumpsite, which held over 2200 metric tons of garbage and the biggest in the port city has been converted to a recreational and ecological park commonly known among residents as “Mombasa National park”.

Locals and visitors through the park with their families to marvel at the work done to reclaim the dumpsite and its beautification work put in to make it attractive. The park is a good site for family outings to relax,

unwind, and bond. The dumpsite land is home to different types of wild animals carefully made by joining plates of metal together and hosts cartoon superheroes celebrated by children. The park located at the entry gates of Mombasa County along Mombasa – Nairobi highway, lined with over 200 flags from different countries in the world and 47 flags from different counties Kenya.

The towering flags act as a signal to passers-by and especially those visiting Mombasa of the beauty therein. A few years back, visitors would be assailed by an odor from the dumpsite kilometers before getting to the area. The sculpture of the great tusker and the white rhinos at the entrance of the park is marvelous. In the inside the park consists of a botanical garden, children playing ground, and a zoo. On a normal day, the park is always full of people both locals and visitors relaxing under the parasols while children play on the swings,

merry go rounds, climbers over, slides, climbers through and spins free of charge.

Since inception, the park boosted local tourism because it is a stone throw away from residential areas and many locals merely walk to the park taking pictures, especially during weekends. The park is has approximately 500,000 different plant species. Trees and flowers have been planted in vehicle tires filled with good soil and painted in various colors. 2000 mangrove trees have been planted at the edge of the park towards the ocean, while the other areas of the park are dotted with different species of trees including Ashok, coconut, jacaranda, Christmas palm, bougainvillea, casuarina, and sisal trees. Live ostriches caged within the park are a great attraction. To the far end along the Nairobi-Mombasa highway is a sculpture of a gorilla family appropriately placed to inform inbound visitors about the park and to act as a reminder to those who

have not yet visited the “animal sanctuary”.

Though functional the ground having been a dumpsite for years, not all the garbage could be removed during the reclaiming process. According to park management, the garbage that remained underneath continues to rot and therefore produces a pungent smell through holes on the floor of the park. This necessitated the use of a superliner to cover the entire floor of the park to reduce the smell and seal the gas outlets. Since its launch, the park has become a haven for children with large open spaces, children have enough ground to enjoy their childhood. Urban centers across the country lack adequate playgrounds for children to play; recreational parks such as this one have offered them an opportunity to be children and to enjoy their childhood.

During my visit to the park there was no major activity and due to the corona pandemic that necessitated the government to stop large

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gatherings. According to the caretaker, if not for the restrictions by the government the park would be filled. Many visitors were only allowed to take pictures of the sculptures of various animals mounted at the entrance of the park. Corona pandemic and protocols that came with it have greatly hampered activities in the park. Though empty, workers can be seen doing routine maintenance and finishing on the remaining projects before lifting of ban on gatherings.

#### Butterfly Pavilion

The butterfly pavilion (now known as nature trail) in Bamburi located a few kilometers after Haller Park, sits on a reclaimed quarry. The work of reclaiming the quarry was done by Bamburi Cement Company to turn the wasteland into a tourist attraction in magnificent. The pavilion is a great venue for outdoor activities whether family, group, or single. The pavilion has become a destination for residents and visitors most especially during weekends and it is among the famous destination in Mombasa. The acres of reclaimed land are covered with different types of vegetation including indigenous trees, which make the forest look natural. Artificial "lakes" in various locations to act as a water source for plants and animals living within the forest have become a habitat for small aquatic animals. The tall casuarina trees planted approximately one meter apart have no canopies, but have managed to cool down temperatures within the pavilion. The cool, cold breeze flowing in between the trees cannot be compared with the hot and humid breeze right outside.

Also, the pavilion offers lovers a place to walk, talk, and express their love in the cover of bird chirps and whistling of trees. As you walk in the park you will miss seeing couples walking on the paths at zero distance, some hurled away under the trees looking yonder hopefully planning their future, while others walking along the paths often stopping to kiss, or hug each other. For physical exercise lovers, the pavilion is a choice. The ten kilometers cycling circuit goes deep into the forest, through hills and valleys. Visitors are allowed to come with



their bicycles although bicycles for hire are available at 250kes. The pavilion has lush ground for picnics and groups that want to enjoy outdoor lunch or play outdoor games. Weekends are busy times in the pavilion people troop in and out of the pavilion the piles of litter left behind after everyone is gone tells it all.

The brisk walking path stretches approximately six kilometers with stopover points to allow for stretching of the muscles. The walking and cycling paths are marked in different colors; cyclers take on paths marked in red while walkers take on paths marked in white. Vitaparours sections are meant for specific exercises from pushups, triceps dips, bicycle crunches, and much more. Groups can as well have their picnics deep in the forest. Security is heightened, a contingent of G4S security officers patrol the entire park day and night with the assistance of dogs.

Other than washrooms for gents and ladies, shower bathrooms have been provided for those who wish to take a bath after cycling or rigorous exercise. A day spent in the pavilion cannot be considered a waste.

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### Haller Park

Mombasa County has over the years taken the challenge to upgrade acres of land that were used as quarries. Cement factories within Mombasa have turned that were used as quarries into an income-earning project. Bamburi Haller Park once a quarry has a botanical garden and is home to various animals including hippos, giraffes, buffalos, antelopes among others. The forest consists of endangered indigenous trees found within the coastal region.

History has it that Haller Park was named after its developer, an agronomist from Switzerland Rene Haller who after planting hundreds of casuarina trees, introduced millions of red-legged millipedes that fed on the casuarina dry leaves. The fecal matter from the millipedes was easily broken down by bacteria hence developing layers of humus over years that enabled different types of vegetation to grow naturally. The development of the ecosystem in the park necessitated the introduction of different species to complete the food chain cycle within that habitat.

Mining, whether of limestone or other minerals is a destructive activity to the environment and it is prudent that companies dealing in mining as part of CSR embark on reclaiming the disused mining

grounds and make them valuable to the cosmos. Cement manufacturing companies within the coastal strip have not been left behind in this endeavor. These companies are improving the status of Mombasa as a tourist town through turning wastelands into a tourist destination, which in turn earn more money for the companies.

Such ventures are slowly gaining traction in Kenya in efforts to beautify the ecosystem, to reduce soil degradation, and combat climate change or food insecurity. Lots of wastelands continue to lie in various parts of the country, at a time when the government is grappling with increasing forest cover to meet a 10% threshold. Disused quarries and other mining grounds, abandoned dams continue to be dangerous to residents that live around these areas. Incidents of children drowning in quarries have been reported in various parts of the country. Similarly, cases of quarries or deserted dams flooding, bursting their banks and causing damage to residents have been reported. In certain areas, malaria infections have increased due to still waters in these quarries and dams.

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# Why Proper Communication is Key For Business Expansion

By Mary Wambua

**O**rganizations across the world lose billions of shillings every year in costs associated with subtle, yet critical factors linked to poor workplace communication.

A 2017 survey by Mitel, a global market leader in enterprise and mobile communications among 900 business professionals across North America and Western Europe, revealed that ineffective communication costs businesses an average of \$11,000 per employee, per year.

Related surveys across the globe

reveal a strong connection between poor workplace communication to employees' frustration, lower motivation and productivity in the workplace, employee disengagement and lack of collaboration across the organization. Other factors connected to poor workplace communication include low customer retention, high employee turnover, absenteeism, sabotage, workplace injury and accidents as well as sick leave, all of which bear huge financial implications for organizations, according to research findings.

Industry experts across the world

particularly single out time spent/wasted by employees searching for information, time spent recruiting, training and onboarding new talent as a result of high employee turnover and the loss of customer as some of the key factors that reveal the true cost of poor workplace communication.

In 2012, global management consulting firm McKinsey reported that employees spend 1.8 hours every day, equivalent to 9.3 hours per week on average, searching and gathering information. "Put another way, businesses hire 5 employees, but only 4 show up to work - the

fifth is off searching for answers, but not contributing any value”, observes XENIT’s blogger, Daniela Di Noi.

Further, industry experts also say that though there are other factors that may demotivate employees, poor workplace communication is a key contributor to low employee motivation and morale, high employee turnover and the consequent need to hire new staff/talent, which comes at a high cost, given the time spent in the hiring process, according to global recruitment service company, Shortlist. “From figuring out what to put in a job description, sourcing candidates through multiple channels, sifting through hundreds of applications, organizing and managing interviews, to all the follow-up needed to negotiate a final offer—the hours add up”, says Shortlist. In a research conducted among Small and Medium Enterprise companies in Kenya, Shortlist established that for a single mid-level hire, companies spend around 18 hours screening CVs and then 19 additional hours interviewing candidates. However, most companies, including the ones interviewed for the research, never record or analyze the time it takes them to hire and therefore, observes Shortlist, they have no idea how much this process translates to in terms of money.

In an opinion article published in the Business Daily on 5th June 2017, Tamara Cook, Head of Digital Innovations, Financial Sector Deepening Kenya and Simon Desjardins, Co-founder and Chief Customer Officer, Shortlist, say that time is the key cost driver in recruiting and, 85% of that is time spent by non-HR teams. The two also say that companies spent around 20 hours per hire before candidates even reached the interview stage and unfortunately, many companies reported feeling that most of this time was wasted.

Statistics from across the globe show that it costs businesses \$4,129 on average to hire new talent, and around \$986 to onboard the new hire. According to industry experts, this means that organizations lose over \$5,000 each time an employee walks out the door, not to mention the unquantifiable cost of losing an

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experienced employee who also takes away valuable corporate knowledge with them.

Industry experts further observe that apart from the lost time and a dip in momentum and productivity, the possibility of hiring a wrong fit also exists, a factor they describe as ‘outrageously expensive’, noting that on average, this costs 3 times the annual salary of the position. Additionally, low morale leads to actively disengaged employees, which results in reduced productivity among staff. According to a report by global research firm Gallup, disengaged employees cost the overall US economy as much as \$350 billion every year, with individual companies losing at least \$2,246 per disengaged employee in a year. Gallup, says that the specific expenses contributing to these numbers vary by company, but a few costs generally associated with employee disengagement include the fact that they (disengaged employees) take more sick days, they are tardy more often and they also undermine the excellent work accomplished by their more engaged colleagues.

Gallup further notes that the decreased productivity of each disengaged employee costs each employer \$3,400 to \$10,000 in salary, missed deadlines and poor sales results. Customer complaints often rise with employee disengagement and, according to Gallup, disengaged employees create disengaged customers because it has

also been established that frustrated workers transmit their cynicism and negativity to the customer.

According to NewVoiceMedia (a global provider Cloud Contact Center and Inside Sales Technology), companies across the US are losing a staggering \$62 billion per year due to poor customer service. In a recent survey, NewVoiceMedia, found that, after experiencing poor customer service, 37 percent of customers would change their supplier, 28 percent would post a negative online review, 26 percent would complain via social media, 13 percent would tell friends/colleagues and 10 percent would inform the media.

Blue Ocean Contact Centres’ Vice President, Client Services, Susan Preiss, says that losing a customer isn’t as simple as losing a single sale, the impact is far-reaching and companies must have a thorough understanding of the extent of this cost in order to understand the true importance of excellent customer service and experience.

Global statistics show that it can cost five times as much to acquire new customers versus retaining existing ones. Costs linked to customer loss are seen in the sales efforts, marketing and advertising as well as customer onboarding.

According to Employees Communication platform Smarp, customer retention rates are 18% higher in organizations with well-informed and highly engaged employees, and

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*Communication breakdown in the workplace affects employees at every level, though it usually starts with managers who are responsible for creating and sharing the systems that a business relies on to spread key information, say industry experts.*

industry experts say that effective workplace communication is key to delivering exceptional customer and employee experiences.

Nairobi based Human Resources Consultant Loise Njeri acknowledges the importance of effective workplace communication, which she says is a critical factor to overall organizational growth and profitability. However, Ms Njeri who has over two decades of experience working as a full time employee as well as a consultant in the private sector in Kenya, observes that by and large, having a holistic and effective workplace communication remains an afterthought affair, for many organizations. Njeri says that in most cases, management commitment to employee communication is usually either totally lacking or existing in small measures. “Most organizations are keen on information central to individual output, with less interest on labour turnover and recruitment issues. Unfortunately, this biased focus takes place at the expense of the broader business objectives, among other key organizational factors, says Njeri. “It is not uncommon to find a work force that cannot relate their day – today work with overall organization’s objectives, vision and goals, and this, has a negative impact on different facets of operations in an organization”, says Njeri.

Devra Gartenstein, Small Business.Chron, says that poor workplace communication is especially

likely to occur when the chain of command in an organization is not clear and when workers are not entirely certain of who is in charge of particular aspects of operations. Devra notes that this tends to become an issue when there are multiple managers giving directions about the same tasks and projects. “It can also be an issue when company objectives are not entirely clear and conflicting work objectives as well as confusing chains of command arise creating an environment where different workers and managers are working toward outcomes that are not in sync,” adds Devra.

Further studies show that companies also experience poor workplace communication as a result of using in-appropriate communication channels most of which neither facilitate easy communication nor provide seamless feedback mechanisms. As a result, the flow of information from management to non-management employees becomes ineffective.

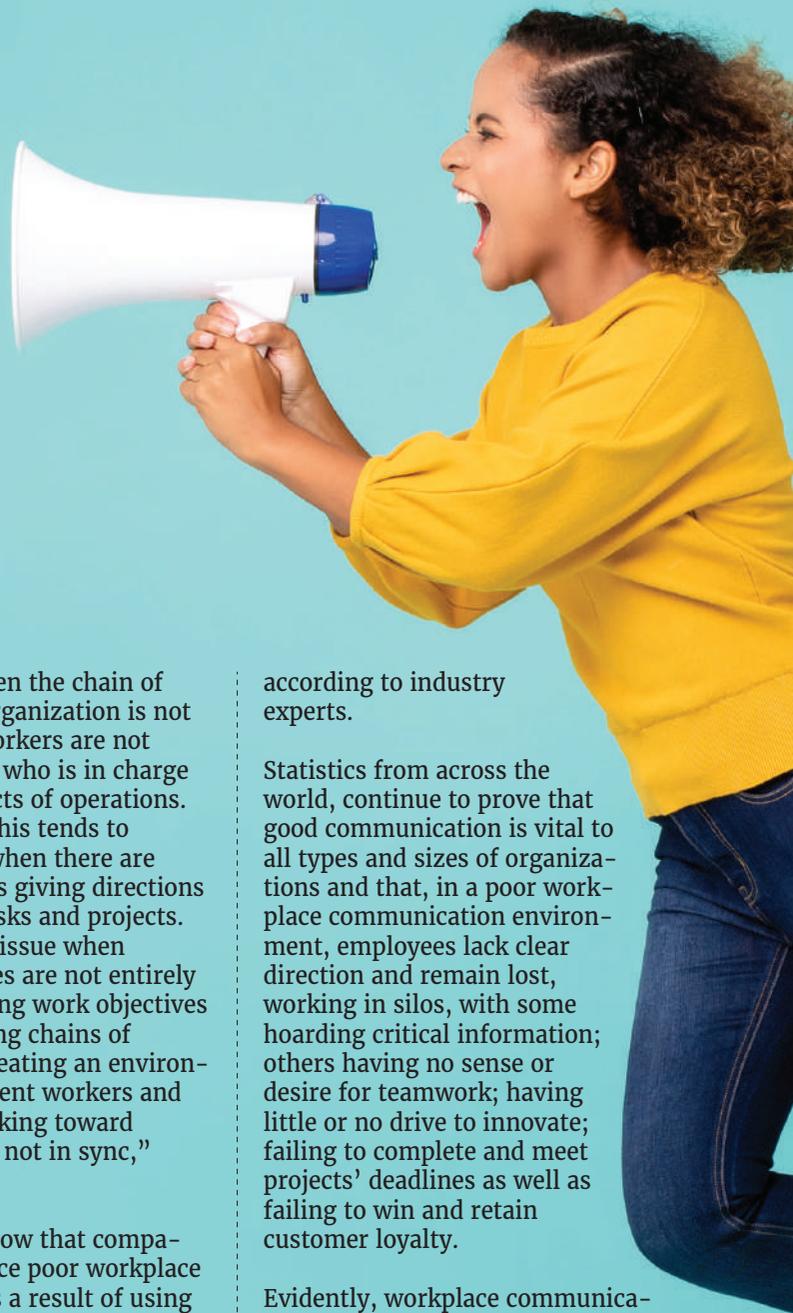
Communication breakdown in the workplace affects employees at every level, though it usually starts with managers who are responsible for creating and sharing the systems that a business relies on to spread key information, say industry experts. Managers also play a lead role in shaping and maintaining workplace culture, providing an environment that allows all employees to either feel safe or unsafe to share ideas and concerns,

according to industry experts.

Statistics from across the world, continue to prove that good communication is vital to all types and sizes of organizations and that, in a poor workplace communication environment, employees lack clear direction and remain lost, working in silos, with some hoarding critical information; others having no sense or desire for teamwork; having little or no drive to innovate; failing to complete and meet projects’ deadlines as well as failing to win and retain customer loyalty.

Evidently, workplace communication (also referred to as internal communication) is an essential aspect of any well-run business. It is the function that ensures that employees are provided with the relevant information, in a timely manner and that they are kept in the loop and understand the company’s key objectives and goals so that they can do their work effectively. Having a well thought out and structured internal communication system enables organizations to manage workplace communication more effectively.

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# Is The Work You Do High Quality?

## How Audit Is Described Influences How It Is Conducted And How Users Respond To It

By Jim McFie

If you visit the website of the International Auditing and Assurance Standards Board, the first sentence you read is: “The International Auditing and Assurance Standards Board (IAASB) sets high-quality international standards for auditing, assurance, and quality control that strengthen public confidence in the global profession”. In the US, if a firm audits the financial statements and the system of internal control (an audit in the US must cover both elements) of a company listed on a US stock exchange, its audit files are examined by the Public Company Accounting Oversight Board (PCAOB). The PCAOB has recently published a “Guide to Reading the PCAOB’s New Inspection Report”.

The PCAOB inspects registered audit firms to assess each firm’s compliance with PCAOB standards and rules as well as other applicable regulatory and professional requirements. Its inspections are designed to review portions of a firm’s audits and to evaluate elements of a firm’s system of quality control. The PCAOB provides each firm inspected with a report, which summarizes any deficiencies identified during the inspection. One of the parts of the report gives criticisms of, and potential defects in, the audit firm’s system of quality control, to the

extent any are identified. When PCAOB inspection reports are first issued, the public will not see this part of the report. If the audit firm does not address to the PCAOB’s satisfaction the criticisms of, and potential defects in, the audit firm’s system of quality control within 12 months after the issuance of the report, this part of the report is reissued publicly to include such deficiencies.

In an article published on October 20, 2020, three academic researchers writing an article entitled “Can Audit (still) be Trusted” quote Castells, the author of a book published in 2013, “Networks of Outrage and Hope: Social Movements in the Internet Age”: Castells stated: “Financial magicians went from being the objects of public envy to the targets of universal contempt. Politicians became exposed as corrupt and as liars. Governments were denounced. Media were suspected. Trust vanished. And trust is what glues together society, the market, the institutions. Without trust, nothing works. Without trust, the social contract dissolves and people disappear as they transform into defensive individuals fighting for survival”. If you look around the world today, these statements summarize where we are.

On Thursday June 25, 2020, Wirecard, a German fintech company filed, for bankruptcy after 1.9 billion euros (\$2.1 billion) went missing from the digital-payment company: the company’s auditor was EY: the audit firm failed for more than three years to request crucial account information from a Singapore bank where Wirecard claimed it had up to €1.9 bn in cash — a routine audit procedure that could have uncovered the vast fraud at the German payments group. The audit firm, Wirecard’s auditor for a decade, has come under fire after the once high-flying fintech company revealed that €1.9bn in cash probably did “not exist”. People with first-hand knowledge told the Financial Times that the auditor between 2016 and 2018 did not check directly with Singapore’s OCBC Bank to confirm that the lender held large amounts of cash on behalf of Wirecard. Jeremy Kahn, writing for Fortune Magazine on June 25, 2020, stated that: If there is one clear takeaway from the collapse of Wirecard, it is this: “Auditing is broken”. Erika Kelton, a partner at the US law firm Phillips & Cohen LLP, wrote that EY has a lot of explaining to do: three companies, NMC Health, UAE’s largest private healthcare provider, Luckin, China’s largest coffee chain and Wirecard are each mired in stunning



financial scandals: EY, through its affiliates in various countries, has been the auditor for all three companies. Audit breakdowns are not unique to EY. All of the Big Four firms (as well as the firms in the next tier down) have been rocked by scandal upon scandal. In the U.K. serious deficiencies have been either alleged or found in the audit of government contractor Carillion (KPMG), retailer BHS (PwC), Ted Baker (KPMG), Mitie (Deloitte), Rolls-Royce (KPMG), BT (PwC), as well as Patisserie Valerie and Sports Direct (both Grant Thornton).

The Financial Reporting Council, which is responsible in the UK for supervising public company auditors, levied three times as much in fines for audit failures in the year from April 6, 2018, through April 5, 2019, the latest figures available, than the year before. In South Africa, legislators are thinking about trying to break up the Big Four after a series of audit failures involving both Deloitte and KPMG. In India, the failure of Deloitte's local affiliate to catch significant financial problems at the Infrastructure Leasing & Financial Services Company has led to significant scrutiny on the Big Four as whole. In addition, in the UK, Deloitte has been fined a record £15m and been severely reprimanded for failings in

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*Financial magicians went from being the objects of public envy to the targets of universal contempt. Politicians became exposed as corrupt and as liars. Governments were denounced. Media were suspected. Trust vanished. And trust is what glues together society, the market, the institutions. Without trust, nothing works. Without trust, the social contract dissolves and people disappear as they transform into defensive individuals fighting for survival”. If you look around the world today, these statements summarize where we are.*

its audits of the software company Autonomy between January 2009 and June 2011. Autonomy, a company based in Cambridge, England, was acquired by Hewlett-Packard for £8.4bn in 2011. But the deal turned sour, and just a year later HP wrote down \$8.8bn (£6.7bn) in relation to the purchase, alleging accounting irregularities. The situation in the U.S. is no better, despite the existence of the Sarbanes-Oxley Act, which became law after the 2001 Enron scandal sank Arthur Andersen and was supposed to strengthen accounting controls at public companies. That law helped establish the PCAOB mentioned above, which is supposed to ensure audit quality. A September 2019 investigation by the Project on Government Oversight, a Washington, D.C., watchdog group, revealed that when the PCAOB has inspected Big Four audits, it found frighteningly high failure rates. In the most recent figures available, inspectors found Deloitte's audits deficient in 20% of cases, PwC's in 23.6%, EY's in 27.3%, and KPMG's in 50%. Jeremy Khan suggests that it is time to admit the problem is not just with one accounting firm or even the oligopoly of the Big Four.

Instead, auditing is an example of what economists call a market failure—one that will persist for as long as auditors continue to be paid by the companies whose books they are supposed to be scrutinizing. Under our current system of hiring and compensating auditors, there are simply too many incentives for the auditors to look the other way. A

number of new regulations have come into existence in the recent past: auditor firm rotation; the insistence on independence; restrictions on offering additional services in tax and consultancy work. None of these seems to have done anything to reduce the incidence of audit failures. That's because none of the reforms has actually fixed the underlying market failure: auditors are not paid by the people for whom they generate value: auditors serve as a watchdog for shareholders, but they also are vital to maintaining faith in public markets more broadly. True and fair financial reporting is a public good. But it is not paid for by the public. Khan offers a number of possible solutions which in my opinion would certainly not work in Kenya.

In December 2019, GOV.UK published a booklet entitled “Assess, assure and inform: Improving audit quality and effectiveness: Report of the independent review into the quality and effectiveness of audit”. This independent review, led by a businessman, Sir Donald Brydon, at the invitation of the UK government, considered how the audit process and product could be developed to better serve the needs of users and the wider public interest. The final report makes 64 recommendations, including the establishment of a new corporate auditing profession with a unifying purpose and a set of principles (in my opinion this would be an exercise in futility). It also makes recommendations in relation to the prevention and detection of material

fraud, communication and transparency within the audit process and the audit report, the role of shareholders and other stakeholders, reporting by companies on their approach to assurance and resilience, and the effectiveness of companies' internal controls over financial reporting.

The recommendations are aimed primarily at the audit of Public Interest Entities (listed companies, banks, credit and insurance companies) in accord with the Review's terms of reference.

Brydon starts the report by stating: "Language matters. How audit is described influences how it is conducted and how users respond to it. It starts with a clear description (certainly from auditors) that it is for directors to communicate about their company and, within limits, for auditors to confirm what is communicated. Michael Power titled his book in 1997 'The Audit Society – Rituals of Verification'. The quality and effectiveness of audit has become an increasingly contested issue, with the result that this Review has been commissioned. Some consider that audit is good enough but the starting place of this Report is that it is not. At a time when information is everywhere and there is no obligation on users of the internet to be truthful, it matters even more that shareholders, and others, can trust what directors are communicating.

Auditors have a unique advantage in having the right to see everything that goes on in a company and to assess whether that trust is deserved. There has been a slow evolution, since the 1970s, in the role of audit from being just a periodic external check on the accuracy of financial reporting towards a value adding function, but this has further to go. In hiding behind the need only to confirm and verify, many auditors have failed to grasp the opportunity to make their reports more informative. Many do take this opportunity in private, communicating well beyond the narrow confines of auditing standards when reporting to audit committees, but not to shareholders or other stakeholders. There needs to be a fundamental shift in defini-

tion and approach to ensure that all appropriate opportunities are taken for the auditor to inform as well as to confirm and verify. This will mean sometimes going beyond the information contained in the statements of the directors. With this change in mindset, and appropriate structures and principles, combined with more focused training and better user engagement, I consider that audit can serve a much more useful purpose. Audit is not broken but it has lost its way and all the actors in the audit process bear some measure of responsibility.

It is particularly difficult to analyse because it is a credence good – i.e. one where its true quality is unknown at the point of use. It has been stated that 'one important implication of viewing auditing as a credence good is that the quality of individual engagements can vary due to idiosyncratic aspects of the client.' Good audit, however, will respond to such idiosyncrasies and should ultimately lead to a lower cost of capital, and lower costs from unnecessary corporate failures, through increased and deserved confidence in business. All the views expressed in this Report are mine alone and I am responsible for any errors or omissions". The Report contains a substantial number of recommendations which should be taken together to stimulate improved quality and effectiveness of the audit. The recommendations relate not only to the work undertaken by the auditor but to the part played by others in relation to the audit. At the heart of the Report lies the objective of making audit more informative to its users and therefore, by improving the cost and allocation of capital, adding value to the economy as a whole.

On the final page of the Report is a poem which appeared in a 1951 edition of *The Accounting Review*: it is said to originate from the 1930s, and demonstrates how many of the same criticisms have been levelled against audit for more than 80 years:

The Auditor's Report:  
We have audited the balance sheet  
and here is our report:  
The cash is overstated, the cashier

being short;  
The customers' receivables are very  
much past due,  
If there are any good ones there are  
very, very few;  
The inventories are out of date and  
practically junk,  
And the method of their pricing is  
very largely bunk;  
According to our figures the enter-  
prise is wrecked....  
But subject to these comments, the  
balance sheet's correct.

I am sure that you have never seen an audit report say quite that: but in the past few weeks I have come across a statement that was an outright lie: this would have ended up with serious problems later.

An executive coach and emotional intelligence speaker wrote recently: "The opposite of honesty is deception — or lying. Lying is equally bad whether you are deceiving others or yourself. When you lie, you delude yourself into believing what you are saying. You start digging a hypothetical ditch, even if with an infant-sized spoon, that will keep getting bigger over time. You confuse yourself, confuse others, lose credibility and put yourself in harm. The worst type of lying we practice, in order to deceive, is when we lie to ourselves. We start messing around with our concept of morality, right and wrong, as well as our dreams and desires". Catherine Winter, the Lifehack blogger, points out that regardless of how airtight you think your lie is, someone will find out about it eventually. But lies also have consequences: trust, in today's world, is something rare: but to regain trust, I have to be the one who can be trusted. And the observable quality of my work must transmit the fact that I have done it well for the benefit of those who should be able to rely on it.

*FCPA Dr. Jim McFie is a Fellow of The Institute of Certified Public Accountants of Kenya (ICPAK)*



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*Language matters. How audit  
is described influences how it  
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*~ Sir Donald Brydon ~*



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- Credit facility from National Bank
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