JOURNAL OF THE INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS OF KENYA

THE ACCOUNTANT

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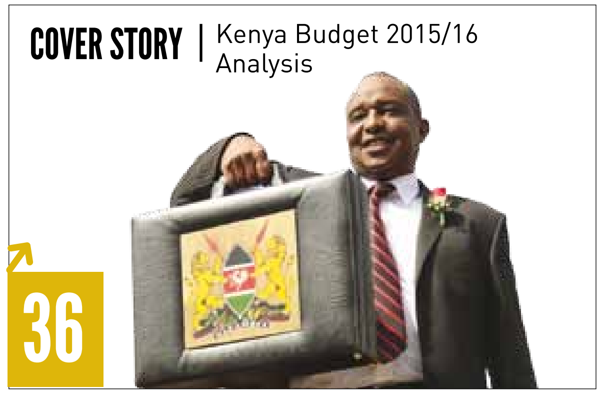
50% increase in development expenditure



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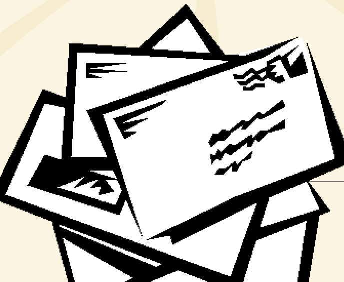

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Public Sector Accounting Standards Board Erred on Counties' Accounting System

The Public Sector Accounting Standards Board is body mandated by law to provide the frameworks and set standards for the development and management of accounting and financial systems by all State organs and public entities. In 2014, the board directed all County governments to adopt Cash-based accounting reporting framework effective year ended 30 June, 2014.

Cash-based of accounting is where revenue is only recognized when received while expenditure is recorded when paid. Similarly, the cost of acquiring assets is expensed.

It is a fact that county governments are just an amalgamation of several defunct local authorities after they inherited functions and systems of the defunct which apparently operated an accrual basis of accounting.

Rates and rent is one of the major revenue sources for county governments. It's common sense that such revenue cannot be received at once. Rent and rates in arrears is usually more than amount received. Thus, under Cash basis, the arrears / debts would not appear on the financial statements. Similarly, when county governments incur expenditure in form of goods delivered which are usually paid later, according to the framework, such expenditure should not be recorded until they are paid.

Clearly, the board has taken country's accounting profession to the rudimentary accounting age. It's obvious that if urgent amendments are not put in place, public funds and resources are exposed to grave risk of misappropriation. Cases of rates and rent being irregularly collected or write off would be normal since they cannot be tracked on a balance sheet. The staff will collude with suppliers to recycle invoices and present them for numerous payments since the invoices are not recorded in creditors' ledger.

Billions worth of assets owned by county governments will be grabbed immediately after the close of the financial year since the assets is expensed in the year of purchase. The challenges are endless.

The board understands that debtors and liabilities of an entity are well monitored on a balance sheet through their respective ledgers. It is time the board sobered up and provided proper guidelines before Kenyans wakeup news of some counties being auctioned due to bankruptcy or some being evicted after land they sit on had long been grabbed. It is never too late for a second thought.

CPA Christopher Mwinamo,
achris74@yahoo.com

Dear reader,

It has been pointed out by the author of our cover story that putting together figures for Kenya's budget has never been an easy task; and the 2015-2016 budget of Kenya is no exception.

The author further notes that according to the 'Budget Highlights 2015/16; The Mwananchi Guide' total Government expenditure for the fiscal year 2015/16 is KShs 2,234.0bn; while the electronic version states the total as KShs 2,209.1bn, there are several other documents on the budget; so trying to decide which the correct figure is, is difficult.

He explains in this article that delves deeply into this year's budget, that the targets set for the Kenya Revenue Authority (KRA) by the Government are far too ambitious; to achieve these targets, the KRA must do everything possible to extract money. On top of this, the county governments are now setting themselves totally unrealistic budget figures. The result is that entrepreneurs in some counties have gone on strike against the taxes levied on them. Some counties are so unfriendly to business that business people are moving to other counties. The writer presents numbers for this feature and explains why they are good estimates of what the figures ought to be.

Are you going to do anything about waste in the upstairs factory? That is the feature you will find in the Financial Reporting and Assurance section. It states that a recent study has estimated that large companies in the US give up a sizable share of their earnings – an average of about 12% - to the wasteful activities of their knowledge workers. If this waste is pointed out, executives shrug it off as an unavoidable expense. Manufacturing and agricultural companies also carefully monitor the cost of, maybe, one thousand cigarettes or one kilo of tea. But often the cost of the head office or the administration department is not scrutinized in the same way. Many Kenyan companies have to improve their productivity radically in order to be competitive in an increasingly competitive world. It is cheaper to get a twenty ton container of tea to Mombasa from Argentina than from Kericho. The author asks; how can Kenyan industry – including our agricultural industry – become more competitive, by offering quality at a lower cost than our competitor countries?

In Finance and Investment, we bring you an informative feature on choosing a bank account for your business. You are of course aware that different businesses have different needs in many aspects; you must therefore open an account that is relevant to your needs. The banking industry in Kenya seems to be advancing well if what this writer tells us is any guide. The writer says in 2003 only 3 million people in the country had bank accounts. Today, more than 15 million people have accounts and the numbers are growing.

Bias thrives wherever there is the possibility of interpreting information in different ways. And People tend to reach self-serving conclusions whenever ambiguity surrounds a piece of evidence. Although many accounting decisions are straight forward, many others require interpretations of ambiguous information. With the avenue of interpretation left open, auditors and their clients have considerable leeway; which leaves a lot of room for manipulation. You will find an interesting analysis of this subject in Business and Practice Development.

In the economy segment, we have yet another instructive feature. Under the topic great to ruins; is organization decline self inflicted? The author tells us that today, almost half of the 25 companies that passed the rigorous tests for inclusion in Tom Peters and Robert Waterman's book, In Search of Excellence, no longer exist, are in bankruptcy or have performed poorly. What has happened to the companies more than 30 years since the book was published? Of the original Standard and Poor's (S&P) 500 list created in 1957, just 74 companies (15%) are on that list today- according to research by Professor Gary Biddle of the University of Hong Kong. Of those, 74, only 12 have outperformed the S&P index average.

Finally, find tips on how to deal with flu in the health segment. Flu affects a number of people everyday; and it is very contagious. Avoid physical interactions as much as possible and remember that when it comes to infectious diseases, your illness is most contagious at the onset of an infection.

We bring you these plus all your regular features.

Editor

By CPA Abdhallah Mambo Dallu, abdhallamambo@yahoo.com

INTEGRATION OF WORKING PAPERS IN TODAY'S AUDITS

Audit working papers are the documents which record all audit evidence obtained during financial statements auditing, internal management auditing, information systems auditing, and investigations. Audit working papers are used to support the audit work done in order to provide assurance that the audit was performed in accordance with the relevant auditing standards. They show the audit was:

- Properly planned;
- Carried out;
- There was adequate supervision;
- That the appropriate review was undertaken; & finally and most importantly;
- That the evidence is sufficient and appropriate to support the audit opinion.

Goals of audit working papers;

- Document the planning, performance, and review of audit work;
- Provide the principal support for audit communication such as observations, conclusions, and the final report;
- Facilitate third-party reviews and re-performance requirements; and
- Provide a basis for evaluating the internal audit activity's quality control program.

Forms of audit Working papers documentation

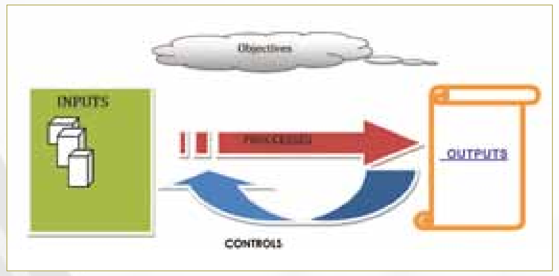
Most of the commonly used forms of audit working paper documentations are;

i. Flowchart,
ii. Manual,
iii. Narrative Note,
iv. Checklist
v. Questionnaire

1. Flow Charts

A flow chart is a diagrammatic method of recording and describing a system, which shows the flow of documents or information and related internal controls within the system. Flowcharts are used in designing and documenting complex processes or programs. Like other types of diagrams, they help visualize what is going on and thereby help the people to understand a process, and perhaps also find flaws, bottlenecks, and other less-obvious features within it.

Flowcharts depict certain aspects of processes and they are usually complemented by other types of diagram. Depending on where the chart is used, flow charts may be described in other common alternative names such as: flowchart, process flowchart, functional flowchart, process map, process chart, functional process chart, business process model, process model, process flow diagram, workflow diagram, business flow diagram.



Types of Flow Charts

Flowcharts can be modeled from the perspective of different user groups (such as managers, system analysts and clerks) and that there are four general types:

- Document flowcharts, showing controls over a document-flow through a system
- Data flowcharts, showing controls over a data-flow in a system
- System flowcharts showing controls at a physical or resource level
- Program flowchart, showing the controls in a program within a system.

2. User Manual

A user guide or user's guide, are also commonly known as a manual, is a technical communication document intended to give assistance to people using a particular system. It is usually written by a technical writer, although user guides are written by programmers, product or project managers, or other technical staff, particularly in smaller companies.

Most user guides contain both a written guide and the associated images. The language used is matched to the intended audience, with jargon kept to a minimum or explained thoroughly.

3. Narrative Note

A narrative description helps to give a complete picture of the system. It also provides a detailed record of the system under audit. Narrative notes/descriptions are very important during the execution of an audit assignment. Majorly, narrative notes covers;

i. System objectives and targets
ii. Links and interfaces with other system
iii. The environment within which the system operates
iv. The allocation of authority and responsibility
v. All key controls and system processes
vi. Exceptional s or cases that may need to be dealt with by the system
vii. Ad hoc controls such as management reviews

4. Checklist

A checklist is a type of informational job aid used to reduce failure by compensating for potential limits of human memory and attention. It helps to ensure consistency and completeness in carrying out a task. A basic example is the "to do list." A more advanced checklist would be a schedule, which lays out tasks to be done according to time of day or other factors. Checklists are often presented as lists with small checkboxes down the left hand side of the page. A small tick or checkmark is drawn in the box after the item has been completed.

More commonly, checklists are used for monthly or quarterly snap audits in operational areas. They help management get an insight of the operational controls put in place. However, these are prone to abuse as they are done by people directly involved in the process. They lack the degree of independence required of an audit.

5. Questionnaire

A questionnaire is a research instrument consisting of a series of questions and other prompts for the purpose of gathering information from respondents. Questionnaires have advantages over some other types of surveys in that they are cheap, do not require as much effort from the questioner as verbal or telephone surveys, and often have standardized answers that make it simple to compile data. However, such standardized answers may frustrate users.

Questionnaires are also sharply limited by the fact that respondents must be able to read the questions and respond to them. Thus, for some demographic groups conducting a survey by questionnaire may not be concrete.

Planning & Preparing Working papers

The preparation of working papers must be planned so that they substantively fulfill the purposes of audit working papers. Methods of operations in different organizations are never precisely the same. They tend to differ in some aspects depending on the internal controls installed by the managements.

Each section of the working paper must be planned to satisfy the requirements of the audit program. When the audit is completed, the working papers should contain data needed to fulfill all objectives of the audit.

Standards of a working paper

The diversity of audit assignments prevents the establishment of a single working paper to be used. Therefore, a uniform working paper format may not be used but working papers for functional areas such as cash receipts and payments in most financial organizations should display conformity in various types of audits. The Most commonly features of a standard working paper include;

i. Descriptive heading; Each working paper should be fully identified by a heading at the top centre containing the name of the organization, Name of the department/activity being audited and the subject matter of information being presented.

ii. Auditors Name and Date of review; Each working paper should contain the initials of the staff member preparing it and the date of preparation. The date usually corresponds to the sign-off procedures used for the audit program.

iii. Purpose and scope of audit work performed; The purpose of each audit working paper is to be specifically stated unless otherwise clearly evident from its title.

iv. Auditors' verification procedures; The nature of verification work performed by the staff member must be disclosed for each working paper. Mere copying of figures from the records is not, in itself, verification. The verification procedures performed must be described in such a manner so as to clearly show what verification procedures were accomplished. Colored tick marks serve this purpose well when adequately explained in a key.

v. Auditors' Findings/Summary; This is normally put at the bottom of the working paper to show a summary of the exceptional cases in the reviewed area.

vi. Auditors Conclusion; Working papers must contain a conclusion with respect to each objective of the audit whether or not adverse conditions are disclosed. They should be the basis for recommendations and must spring from information contained in the auditors' working paper.

RETIREMENT OF WORKING PAPERS

Working papers for each audit can be filled two standards files;

a) Permanent file
b) Current file

Permanent File

This file provides information which may be used to advantage in conducting subsequent examinations relating to the same department, activity or branch. It also supplies new staff members, supervisory personnel and others with a summary of the auditees' current policies and procedures and organization structures. It should be maintained on a current basis by updating the file as additional information is obtained as a result of the audit.

Contents of a permanent audit file

i. Copy of articles of Association
ii. Copy of Memorandum of Association
iii. Information concerning the legal & organizational structure of the entity
iv. Company legal adviser
v. Extracts or copies of important legal documents, agreements and minutes
vi. Accounting & internal control systems
vii. Letter of engagement
viii. Bankers

Current File

This file consists of working papers containing information primarily related to the purpose of the current audit. It only contains working papers pertaining to a particular financial year, set of accounts or department.

Contents of a current Audit File

i. Evidence of the planning process
ii. Evidence of the auditors understanding of the accounting and internal control systems
iii. Analyses of transactions and balances
iv. A record of the nature, timing and extent of audit procedures performed and the results of such procedures
v. An indication as to who performed by assistants was supervised and reviewed
vi. Details of procedures applied regarding components whose financial statements are audited by another auditor
vii. Letters of representation received from the entity

Conclusion

Working papers provide evidence that an effective, efficient and economic audit has been carried out. They should therefore be prepared with due care and skills. They should be sufficiently detailed and complete so that an auditor with no previous experience of that audit can understand the working paper in terms of the work completed, the conclusions reached and the reasoning behind these conclusions. Working papers are instruments vital to the successful accomplishment of all audit assignments performed. Hence, their importance cannot be overly emphasized.

By FCPA Jim McFie, a Fellow of the Institute of Certified Public Accountants of Kenya

WASTE IN THE UPSTAIRS FACTORY

Are you going to do anything about it?

A recent study has estimated that large companies in the US give up a sizable share of their earnings — an average of around 12% — to the wasteful activities of their knowledge workers, the employees once labeled "white-collar" or office workers. If this waste is pointed out, executives shrug it off as an unavoidable expense. However, manufacturing and agricultural companies carefully monitor the cost of, say, one thousand cigarettes or one kilo of tea. But often the cost of the head office or the administration department is not scrutinized in the same way. Many Kenyan companies have to improve their productivity radically in order to be competitive in an increasingly competitive world. It is cheaper to get a twenty tonne container of tea to Mombasa from Argentina than from Kericho: how can Kenyan industry – including our agricultural industry – become more competitive, by offering quality at a lower cost than our competitor countries?

One way is to improve the productivity of the "knowledge workers" in companies – and yes, the "accountants" are included here. One executive who is uniquely positioned to fight waste among "knowledge workers" is the Chief Financial Officer (CFO), if s/he has the honesty and resilience to state facts as they are. Often inefficiency hides comfortably and confidently from those who are ready to accept less than the best. In contrast to factory workers, knowledge workers are more autonomous. They can define their own operating practices, set their own parameters for success, and measure their own performance. This subjective approach allows wasteful activities to hide alongside essential tasks.

Wasted effort in a conventional factory produces scrap material, downtime, or returned defective goods. This waste is tangible and obvious. Accounting rules mandate that it be added to the cost of finished goods, which are assets. Assets attract investment to improve productivity. Managers, industrial engineers, and factory workers invest obsessively to discover and eliminate wasted labour. They track progress in objective, quantitative terms: ratios, unit rates, or parts-per-million. These investments have worked magnificently in the classic plant — call it the "downstairs factory." Over the last century, manufacturing labor productivity has increased by at least tenfold – but not in Kenya: this topic is an article for another day.

Think of knowledge work as an "upstairs factory." It has many similarities with its downstairs counterpart. However, upstairs hardly anyone has the objectivity to recognize what is valuable and what is waste. The upstairs factory produces products and delivers services, but these are for internal consumption: finance produces management reports, marketing produces campaigns and collateral, IT produces data. These processes can be streamlined and improved. As in a conventional plant, the workers generate waste that could be reclaimed to increase margins and deliver competitive cost advantage.

The difference between these two factories lies in what might be termed the "value recognition process." The contrast is stunning. Although 60% of most knowledge work is repetitious, industrial engineers are not assigned to scrutinize it for standardization opportunities. Consequently, knowledge workers design their own methods, which are inconsistent and largely undocumented, often existing only as their own knowledge. The result is costly variation in even the simplest tasks. The study shows that 20% to 40% of knowledge work is devoted to error correction, manual workarounds, and customer over-service. Knowledge workers view these activities as unavoidable and frequently blame them on inadequate technology or actions outside of their group. Often they are right, but the job needs to get done somehow. They earnestly explain that their actions preserve revenue, serve customers, and support the salespeople. Again, they are often right; they are prisoners of dysfunctional business processes. Because they see themselves doing good, they can call this "virtuous waste."

Because these wasteful activities are individually small and dispersed throughout the day, managers cannot catch them through casual observation, despite high occurrence rates. But if the workflows are mapped and the time spent analyzed, it is found that virtuous waste consumes 30% to 40% of organizational capacity. This is the classic "long tail" phenomenon applied to improvement: many small gains can deliver massive total benefits.

The sum of these little things would certainly get noticed. In 2013, the Fortune 500 reported earnings of $1.23 trillion. According to this study of more than 200 of these companies, approximately $150 billion was spent on virtuously wasteful activities. This could have dropped straight to the earnings line. Capitalize this at an average price-to-earnings ratio of 20, and it represents $3 trillion in untapped market value.

Accounting rules also help hide inefficiency. Knowledge work is part of a company's intangible assets, together with what is usually thought of as intellectual capital: patents, copyrights, trademarks and trade secrets. Accounting rules allow intellectual capital to be booked as assets. However, 75% of intangible assets are what economists refer to as "competencies," like databases, work methods, research and know-how, the costs of which are booked on the income statement. And because assets attract productivity engineers while expenses typically do not, these particular intangible assets, hiding as expenses, are second-class citizens in terms of value recognition.

This is the result of this thinking: intangible assets constitute two-thirds of the value of the business, but only 25% of that value is carried on the balance sheet as assets. The remaining 75% derives from competencies, which appear on the income statement as expenses. That means roughly half of the value of the business resides in hard-to-describe, hard-to-perceive, intangible assets that are booked as expenses.

For building business value, expenses are the road less examined. Executives prefer to focus on revenue and conventional assets, and thus a company might never notice that 12% of its earnings are disappearing.

At one of the world's largest publishers, industrial engineers examine every expense in creating a magazine, from production labor to binding staples. They arduously control the expenses that get converted into assets—the unit cost of magazines, the finished goods. The value of such scrutiny is obvious. It helps lower the cost of the asset, a magazine, to improve gross margins. However, they lavish no such attention on the expenses — the competencies — required to market and distribute these finished-goods assets. For example, extensive market research is routinely produced, but because of lax procedures almost half of the company's marketing campaigns ignore it. No "industrial engineering" ensures that marketing managers even understand the research. Distribution operations are not monitored with the same engineering discipline as the printing presses, creating costly errors that persist indefinitely. One newsstand received the wrong language edition for more than five years before the publisher's finance department noticed. It was easier for the newsstand to return the unsold copies than report the mistake. The publisher's expense for processing the returns was perceived as "unavoidable" customer service — an example of virtuous waste. This is how inefficiency lazily nibbles away at earnings. A company's office furniture is typically managed more rigorously than the competencies that contribute half of the company's market value.

To reclaim these losses, executives must perceive knowledge workers, their tasks, and their autonomy with a "factory eye." The root causes of waste on the assembly line and in the office are the same: excessive variation in output, needless customization, ambiguous decision rights, and inadequately undocumented processes. Although knowledge workers rarely recognize it, both types of work have repeatable patterns. As the authority on value assessment, the CFO has the responsibility and resources to highlight waste, whether it is tangible or intangible. And as the liaison between the CEO, the board, and the business units, the CFO is ideally positioned to lead the charge.

The first step is to reimagine the role of the finance group. Employees who perform internal reporting can be transformed into an industrial engineering (IE) group for intangible assets, just as a conventional IE organization is accountable for getting the most from the tangible assets. Their first project would be to upgrade internal management reports. Finance should work with the business lines to create reports that expose virtuous waste. That is not the way it works today. Business lines ask for reports; finance delivers whatever is requested. That often creates a plethora of conflicting reports that obscure how the business generates and loses margin. As an example, tellers in a major bank receive incentives to send customers to lending officers, regardless of whether those customers are bankrupt or prosperous. These "prospects" are virtuously seen as "potential revenue." A simple report would show how many unqualified prospects are shuffled through the lobby in this game. After the unqualified person arrives at the officer's desk, another game ensues. Up to 60% of the officer's skills are wasted on mundane administrative activities, such as obtaining signatures, generating presentations and retrieving loan files. Standardization would eliminate more than half of these tasks, but no one is assigned to look for standardization opportunities.

Let the production of the reports themselves be the first improvement target. The process needs to be "industrialized." That means adapting the techniques used on a plant floor to create a disciplined "reporting factory." For example, finance should create an inventory of existing reports and standardize and document the basics: report names, users, distribution lists. That kind of standardization is gospel on a factory floor. Next, do the reports actually work? Are they accurate? Are their components interchangeable? In other words, are definitions and data standardized? Can the users in the business understand the reports? Do these reports have to be modified for the user's purposes? Do they expose redundant and one-off activities? Do they miss some activities or processes? When success is achieved in one area of management reporting, replicating it in other areas is a relatively simple task. Begin with one business area, and then extend and connect to its related sales and marketing groups. This will enable valuable connective reporting. For example, have marketing plans been reviewed with the contact center operations executives to anticipate volumes of calls from new customers or promotions?

The ultimate value of inefficiency lies in the eye of the beholder. Knowledge workers see the waste in their methods and shrug it off as a negligible, unavoidable expense. Plant workers see their waste as a clue to hidden value and stop the assembly line to fix it.

Which way will you choose to see it? Are you the CFO that you should be?

By CPA Anne Komira, Photos: Dreamstime

PERSONAL FINANCIAL MANAGEMENT

An Individual's Choice

Part1

What is personal financial management? Whose responsibility is it to have one? Why should one plan for their finances? Isn't it a lot of work anyway? Shouldn't we leave that to the accountants? The human race was brought into the world to perform a specific task and in all the tasks we do we expect to receive income in whatever means. If you go to the shamba, your income will be the harvest. Employees income at the end of the month is salary, while for business people, income is the total sales for the period. Therefore what motivates each one of us to get out of bed every morning is to earn some income. This is the purpose why we are living. We go to school so that we can get employed. We do business so that we can earn a profit, the purpose every organization exists.

What we do for a living becomes part of our names or how we want to associate ourselves. Phrases like am an accountant by profession, lawyer, engineer, doctor, teacher among others are among the key ways we use to identify and group ourselves. No wander Sacco's and other groupings are formed for a given class of people. Imagine meeting two nicely dressed men and after their names, one says he is a beggar in the streets and the other one works as a senior officer in the kings' palace. You can automatically know the reaction or the number of people who would want to identify themselves with the beggar and those who would want to take the contacts for the servant of the kings' palace.

It's human nature the way we were created to be selfish. We love good things, identify ourselves with the well to do, may hide and fear to face reality and hate desperate groups who want sympathy. Have you ever asked yourself what makes one man rich and the other man poor? A number of people would imagine that the rich are rich because they were born from good backgrounds, the parents were rich, they schooled in hi-tech schools or God just created them rich. Then comes the question, why some people poor or broke all the time even when they work for the same employer in the same grade and some were born from the same family, attended same schools and had equal opportunity in life.

Poverty or no poverty it's all in an individual's mind. We basically end up where we have set up our minds to reach. You score where you aim. That means, if you want a big fish, one must cast his/her net at the deepest part of the sea. At the deep sea, life is not easy and you risk drowning. If you want omena (small fish) then you can play near the shallow waters where the risk of drowning is equally low. They say life is about taking risks. You have then to balance and get your ground and know what you want. Hence the difference in the mind set up between those who want to die poor and those who want to die rich. Career wise, when you imagine dropping out of school and either getting married staying in a slum or village, you aim at that, and end at that state. When you dream you wanted to be a pilot, medic, engineer among others, when you miss the point, the worst you can be is a high school teacher. However you would end up being a business executive, lawyer or still be an engineer or the doc. The same judgment defines those who want to be financially stable and those who want to hold flow through bank accounts.

Is it that the rich and the poor are simply defined by what everyone earns at the end of the month? There is no true answer to this. It could be yes to some extent, no to another extend which means yes, no, and both qualifies as a good response for the same.

All of us have an income whether it is in form of professional, employment, business, donations or family support income.

But the question that we should always ask ourselves is do I have a personal financial plan?

Does one need to have a background in finance to be able to plan for their personal finance? Are finance experts the best rated when it comes to personal financial management? Does one need to be educated to be able to plan and manage their finances? Does one have to earn a lot of money to be able to plan and manage their personal finances?

The answer to the above questions is basically no. When it comes to personal financial management, its start with an individual responsibility to learn and see the need to plan for the same. Nobody will get punished for not doing the same. Taking a sample survey on the type of people who plan and manage well their finances, they were born with the character and personality. This can be seen from the old days when there was no formal education or jobs and people were just living in the village and wealth was measured in terms of herds of cattle one had, the number of women and children and the parcel of land one had. Even during those days, the lazy sluggards would have nothing being described as poor and would spend life toiling the hard labor on the land of the well organized and planners being termed as the rich. In the modern world, how many people with good paying jobs retire empty handed? It's an area which leaves a lot to desire.

Ideally, we have two types of personalities in this world. Those who love spending and those who love saving. Spenders are described as spend thrift and are the types of people who do not breathe when they have cash. They ensure everything they have is put to use immediately before they can relax and figure out where they can get the next coin. The spend thrift group enjoy life in the world. They live their life today and are people who are very optimistic about life. They do not imagine any bad thing happening and always imagine the status quo in terms of financial income will remain unchanged so long as they remain in the world. They are prone to health problems and may not survive in environments of uncertainty due to lack of stability in finances and not being able to cope should anything happen to stop the financial income be it in employment or business. Majority of people who are spend thrift are employed, they are outgoing people who perform roles where they interact a lot with the world.

The other categories of those who love the sight of money are saver and are referred to as misers. Misers are pessimist in nature and always see the bad day ahead. They are good handlers of shocking situations as they are normally the prophets of doom and in majority of cases are prepared for the worst case scenarios. Most misers do not interact a lot with people and do jobs that enclose them to machines like accountants, economists and ICT programmers. This makes them lack the time to spend and may also learn along the corridors the beauty of watching money even when you need to part with it.

Whether spend thrift or misers one has a free will to decide which side they belong. Either of the extremes may not be admirable hence the need to strike a balance. The misers leave a life of denial but live with a peace of mind having prepared them for the worst. The misers have a relaxed life and do not end up with stressful diseases like ulcers and high blood pressure knowing they are in the world to stay hence keeping everything they have gathered around. The spend thrifts enjoy their lives while still living after all we came to the world with nothing and will go back with nothing no-matter how much we have left behind, we only take a small space at the parting hour. Successful business owners who struggle with their own personal finances are somewhat of a mystery. Somehow, these people show brilliance in starting and growing a business but do the absolute opposite when it comes to managing and growing their own net worth.

The key to helping these people get their personal finances on the right track isn't about teaching them a new set of skills. Rather, it's teaching them that everything they do in their business works just as well in their personal finances. Even if you don't own your own company, the principles that contribute to success in business can also go a long way toward helping you achieve your financial goals.

By Matanda Gabriel.Cpa (k), Cps (k), BMIT, MBA, Photo: Cleverbit

STRATEGIC MANAGEMENT PRACTICE ON SUCCESSFUL COMPLETION OF CONSTITUENCY DEVELOPMENT FUND

Funded Projects in Rural Areas in Kenya

The orientation towards strategic management in organization occurred shortly after the 2nd world war. The term strategy is associated more with military activities but has been borrowed by management. With emergence of globalization; many organizations have been faced by stiff competition for excellence. Traditional ways of doing business nowadays does not apply hence necessity for the application of strategic management in order to overcome competition and to achieve success in running the organization affairs. In the world today the concept of strategic management practice is inevitable due to various dynamics in the market. The process of strategic management has spread across Africa continent and you could find most organizational leaders talking about among others, strategy implementation and strategy evaluation in most of their discussions in determining successful completion of projects.

Strategic management is a significant part of management and application of new strategic management knowledge is necessary for success or failure to complete projects in various rural developments. Strategic management involves the formulation and implementation of the major initiatives taken by a company's top management on behalf of owners, based on consideration of resources and an assessment of the internal and external environments in which the organization competes. Strategic management provides overall direction to the enterprise and involves specifying the organization's objectives, developing policies and plans designed to achieve these objectives, and then allocating resources to implement the plans. Strategic management practice is not static in nature; the models often include a feedback loop to monitor execution and inform the next round of planning. This is a fit, which an organization has within its environment. Strategy is a master plan that delineates critical causes of action towards the attainment of organization's objectives and a blue print that defines the means of deploying resources to exploit present and future opportunities.

Constituency Development Funds (CDFs) dedicate public money to benefit specific political subdivisions through allocations and spending decisions influenced by their representatives in the national assembly. In Kenya most of the rural areas are under developed and abandoned, not that they lack resources to boost development, but lack of proper strategies in the development agenda to successfully complete CDF funded projects in the counties . Reports showed no serious studies have been done on how initiated projects in Counties across Kenya. This is against the backdrop of numerous abandoned and incomplete projects, despite the required resources having been availed to them. Critics in Kenya have further argued that funds from CDF kitty are most often and most easily being spent on short-term projects which benefit a small number of residents. The view expressed by one Kenyan MP was that the CDF must be tied to national goals. The foregoing necessitated the current study on the influence of strategic management practice on the successful completion of CDF funded projects in rural areas

6.1.1 Growth and Portfolio Theory

In the 1970s much of strategic management dealt with size, growth, and portfolio theory. The Profit Impact of Marketing Strategies (PIMS) study was a long term study, started in the 1960s and lasted for 19 years, that attempted to understand the PIMS, particularly the effect of market share. Started at General Electric, moved to Harvard in the early 1970s, and then moved to the Strategic Planning Institute in the late 1970s, it now contains decades of information on the relationship between profitability and strategy. Their initial conclusion was unambiguous: The greater a company's market share, the greater will be their rate of profit.

The high market share provides volume and economies of scale. It also provides experience and learning curve advantages. The combined effect is increased profits. The study's conclusions continue to be drawn on by academics and companies today: PIMS provides compelling quantitative evidence as to which business strategies work and don't work. The benefits of high market share naturally lead to an interest in growth strategies. The relative advantages of horizontal integration, vertical integration, diversification, franchises, mergers and acquisitions, joint ventures, and organic growth were discussed. The most appropriate market dominance strategies were assessed given the competitive and regulatory environment.

There was also research that indicated that a low market share strategy could also be very profitable. It has been shown how smaller niche players obtained very high returns. By the early 1980s the paradoxical conclusion was that high market share and low market share companies were often very profitable but most of the companies in between were not. This was sometimes called the "hole in the middle" problem. This anomaly would be explained by Michael Porter in the 1980s.The management of diversified organizations required new techniques and new ways of thinking in order to operate successfully.

6.1.2 Theory of Project Management

It is asserted that the foundation of project management theory can be broken down into two. That is, the theory of project and theory of management. The theory of project is said to be provided by the transformation view on operations. Projects could be perceived just like a special type of production. In other words, a project is a temporary Endeavour carried out in order to create a unique product or service. In the transformation view, a project is conceptualized as a transformation of inputs to outputs. It is further noted that there are a number of principles by which a project is managed. It is exemplified that according to the aforementioned principles, decomposing the entire transformation hierarchically into smaller transformations, tasks, and minimizing the cost of each task independently.

Under the theory of management, management is viewed as planning, executing and controlling. In management-as-planning, management at the operations level is seen as consisting of the creation, revision and implementation of plans. This approach to management looks into a strong causal connection between the management actions and outcomes of the organization. It is further assumed that planned tasks can be executed by a notification to the executor of when the task should begin. The management control, on the other hand, consists of a number of elements. There is a standard of performance; performance is measured at the output; the possible variance between the standard and the measured value is used for correcting the process in order for the standard to be reached.

In the context of the current study, the CDF-funded projects, in line with project management, undergo transformation. In this case, the projects' inputs are in form of funds they get from the CDF kitty. The funds are supposed to be implemented in order for the projects to be successfully completed. The outputs as illustrated by the project management theory are exemplified by the completed CDF projects. The performance in the case of the aforementioned projects is measured by how successfully the projects are completed.

Constituency Development Funds (CDFs) dedicate public money to benefit specific political subdivisions through allocations and spending decisions influenced by their representatives in the national assembly. In Kenya most of the rural areas are under developed and abandoned, not that they lack resources to boost development, but lack of proper strategies in the development agenda to successfully complete CDF funded projects in the counties.

Changamwe CDF committee with their Magarini counter part inspecting Kaembeni majengo community water project in Magarini constituency

The Water Project - AIC Kapchemoiywo Girls Secondary School

6.2.1 Strategy Implementation

Successful implementation of new strategies can be defined either as having adopted a decision, a definition which does not consider the effectiveness of the decision and what was achieved with the decision, or as choosing and implementing an action plan that solves the problem it was intended to solve i.e. the appropriateness of the implemented .

It is further argued that implementation success of new action programs in farm businesses to the nature of the program and to personal characteristics and situation of the farmer. Hypotheses about how the nature of the action program and personal characteristics and situation of the farmer influence implementation success, defined as the extent to which the program solved the problem it was intended to solve, were developed and tested in a generalized logits model. Facilitators and inhibitors of successful implementation of strategic decisions are studied in empirical applications. For instance, Nutt (1999) found that the implementation tactic must be adapted to situational conditions, such as corporate culture and power. It was concluded that a combination of an experience-based, i.e. planned approach and a readiness-based approach provides the best implementation success. Successful implementation was found to depend on clear aims, planning and cultural receptivity, whereas experience, prioritizing implementation, and having abundant resources were found to matter less.

In a study on implementation of strategic management practices in the Malaysian construction industry, it is concluded that the application of strategic management practice in organizations can help the organizations in enhancing their performance through improved effectiveness, efficiency and flexibility. The study further proved that the effect of strategic management is positive. Against this backdrop, however, for there to be improved performance, the implementation of strategic management should essentially be conducted properly.
In Kenya, it is argued that there are various project implementation challenges. Some of the challenges related to implementation of CDF project strategies include weak institutional framework supporting the CDF, lack of transparency, and failure to sufficiently address the political imperfections that distorted political incentives to serve all the poor equally. One of the objectives of CDF according to a report by the Open Society Initiative for Eastern Africa - OSIEA is to ensure citizen participation through decision making in project identification, implementation, monitoring and evaluation. Yet, when studying CDF projects in Ainamoi Constituency, Kenya, it was averred that several rural development programmes have failed to realize their desired objectives because of poor organization and implementation strategies.

It is further alleged that important elements of project implementation such as organizational design have not fully been managed by the committees in the constituencies. In the OSIEA's report, it is alleged that in a survey of 21 districts by National Anti-Corruption Campaign Steering Committee (NACCSC), some constituencies' development committees (CDCs) comprised of MPs' spouses, close relatives and political cronies. It was further observed that numerous forms of corruption inhibited efficiency and effectiveness of CDF. This compounded by the allegation that several MPs have been legislators, implementers and auditors of the CDF projects have compromised the implementation of CDF strategies.

> **In strategic management, a project can be said to be successfully completed if all the elements of planning, choice, analysis and implementation are present. We can say that a project is complete if it has the following factors: user involvement, executive management support, clear statement of requirements, proper planning and realistic expectations.**

Road construction projects at Mukurweini constituency, Nyeri county. The programme is funded by the CDF kitty and the national government

Dagoretti South Constituency - CDF Projects

During one of my closed interview the respondents were found to disagree that project completion is the last stage of CDFC project selection. The respondents concurred with the assertions that proper CDF management is reflected by the number of projects completed successfully; most CDF projects remain work-on-progress for lengthy periods of time; strategy implementation affects successful completion of projects; and that strategic choice and analysis of CDF projects affect the projects' successful completion. It is worth noting that regarding successful completion of CDF projects, CDFC members held significantly varying opinions.

6.2.2 Successful Completion of Projects

In strategic management, a project can be said to be successfully completed if all the elements of planning, choice, analysis and implementation are present. We can say that a project is complete if it has the following factors: user involvement, executive management support, clear statement of requirements, proper planning and realistic expectations. In the Business Monitor International report of year 2010, it is concluded that these were the elements that were most often pointed to as major contributors to project success. However, these elements alone could never guarantee success. But if these are done well, a project, according to the Standish Group, will have a much higher probability of success. The next category of differentiators from the Standish report deals with projects that proved to be "challenged" that is they were completed but were over budget, over time, or did not contain all functions and features originally required.

It is asserted that though studies on project management have been granted significant, less attention is paid to the same in context of strategic management. Project completion is said to be the last stage of the CDF Committee project selection. By year 2011, more than 60,000 CDF projects in various stages of completion had been established throughout Kenya with a significant proportion of them having been completed and in use. A report by OSIEA which was as a result of s study of Vihiga, Sabatia, Emuhaya, and Hamisi constituencies in Kenya put across a number of crucial recommendations. One of the key recommendations was to wind up the CDF through a final disbursement in the following financial year and to complete all pending but viable projects and also repeal the CDF law.

In yet another study on CDF projects in Mwea Constituency, Kenya, about 60% of members of parliament who had billions of CDF money unspent in their respective CDF accounts had incomplete projects. According to the findings of a study on factors influencing management of CDF projects in Ainamoi Constituency, Kenya, proper management of CDF is determined by the number of projects completed and the impact the projects have on people's lives. The study further sought to establish whether CDF-funded projects are completed or they remain work-on-progress for a lengthy period of time. They found that majority of the respondents opinioned that the projects were neither funded fully nor in tandem with the bill of quantity.

8.2 Conclusions

It is inferred that application of strategic management practices in CDFCs is an essential factor in ensuring successful completion of CDF projects. The implementation of CDF projects has been plagued by lack of transparency and failure to sufficiently address political imperfections. Poor implementation of strategies is concluded to result in many CDF projects failing to achieve their desired objectives. It is further concluded that, implementation of strategies pertinent to CDF projects is constrained by corruption and unnecessary interference by local member of National Assembly. In conclusion, it is worth noting that implementation of pertinent strategies are very crucial to successful completion of CDF projects.

8.3 Recommendations

It is recommended that, the CDFCs ought to employ strategic management practices in light of CDF projects. Furthermore, it is recommended that all the operations regarding implementation of CDF projects should be transparent and that the political class should not interfere with such projects unless where it is deemed to be very necessary.

By CPA Charles Okeyo Owuor, nyakwarogara@gmail.com

THE CHARACTER OF THE CERTIFIED PUBLIC ACCOUNTANT

Photo: CPA Ontario launches new provincial magazine - driving discussion and analysis on September 24, 2014

I should like to reflect in this article upon some of the intangibles that go to make up what a certified Public Accountant is or rather the intangible that an Accountant accumulates, in the course of a life time in the profession. For no Accountant starts with all these qualities and no Accountant at any time have all these qualities in the right sort of quantities all the time. But it is a part of the seduction of this profession that we meet with such a variety of human conduct over the years and need so constantly to exercise our limited skills, that we do, even involuntarily acquire them while being in work that is incapable of being dull.

Fairness

Among the kaleidoscope array of qualities that an Accountant comes eventually to possess, the one that must come early and which glistens the most is that of fairness. There is no attempt to shy away from the use of the word 'fair' despite the fact that it is an abstract, and despite the fact that it is difficult to define it, and that it is in fact never defined. But there is no doubt, fairness is not easily measurable, but its absence is quickly felt. Unfairness is gangrene in the body politic. That feeling of unfairness can arise through innumerable ways, whether through a badly conducted audit assignment, corrupt auditor, through Anglo-leasing, the recent Mumias Sugar company, CMC Motor Group saga and or Parliamentary select committees (now Public Accounts Committee)

When an auditor practices fairly, it means that he pays regard not only to the results of his work but also to the manner in which he/she obtained those results and carried out his duties. Fairness is promoted ultimately not by laws but by our own belief in it. It is therefore every Accountants' great responsibility by his or her daily fairness in every audit assignment, big or small to contribute to justice and therefore directly to economic development, peace and social stability in our profession and country.

Independence and objectivity

Without independence and objectivity there can be no fairness. No auditor can be fair if it is dictated to by the management as between private parties or gives decisions contrary to the evidence or the law.

The International Standards for the Professional Practice of Internal Auditing (IPPF) 2013 Edition, Standard 1100 interpreted and or defines independence and objectivity in the following words:

"Independence is the freedom from conditions that thereafter the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executives has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional and organizational levels."

"Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels."

Most clients seek professional advice from an auditor. But there are some clients, both corporate and individual, who see the auditor as little more than an employee, at best as the head of their 'audit' department. This approach is incompatible with an independent audit environment. An auditor's fees does not buy the auditor. They buy the auditors' best independent advice, best work and best effort. Some clients do not want to hear independent advice. They want the auditor to do what they tell the auditor to do. An auditor should courteously reiterate her or his advice and be prepared unhesitatingly to lose such an assignment or engagement, even though it involves a client who is important to the auditor.

We have to do that because such an attitude from a client, and the acceptance of such an attitude, destroys the professional relationship, and ultimately the professional judgment and decision making ability of the auditor. And, again ironically, it is only by maintaining the auditor's independence from the client, that the clients' best interest will be best protected.

Courtesy

The work of the independent auditor is marked by courtesy and indeed is enhanced by it. That courtesy characterizes the auditor's relations with both internal and external auditors for both are colleagues in our daily working. Mutual courtesy between internal and external auditors is an expression of mutual respect between the parties.

Accountant is part of a tradition.

For we are not alone, other accountants follow us year after year with the same determination and talents.

Shakespeare once said:

"….keep, then, the path; for emulation hath a thousand sons that one by one pursue…….."

Troilus and Cressida, III, 155.

Because we ourselves have been successors to those who came before us in the profession, and because we use their efforts in our daily works and because the accounting outlives each one of us, and because we follow one another in thousands, Accountants are part of tradition we build on the past, we build for future and because we are not alone and because we are followed inexorably.

Tradition is the use of the past for action in the present and the future. It enables us to utilize the accumulated wisdom and experience of those who have gone ahead of us in the profession. That is the strength of our tradition, in the midst of its many weaknesses.

Within this broad tradition, there are many traditions. Those who we will emulate in different ways; those who preceded us as craftsmen such as Luca Pacioli (1447-1517) (Pacioli's Summa is the first known complete description of double entry book keeping), Mary Harris Smith (first female accountant in the year 1888) whose accounting work stand as model of accounting and completeness. For tradition is indeed about emulation. But not just about emulating. It is to build higher upon what has gone before.

"if you want to see the invisible carefully observe the visible"…. The Talmund

A characteristic of an auditor is that she is able to analyze the raw material that constitutes a case, a human problem. This she does by a careful study of that material. We therefore fall into the habit of careful scrutiny of documents, behavior and motives. But motives and intentions are largely hidden from view. The better we study and analyze the documents and the facts, and the better we observe the visible, the better we shall be able to draw conclusions about what is not disclosed, to use the words of the Talmund, to "see the invisible."

Auditor is a realist

An auditor's working blocks are reality, the facts as they are before the auditor. The auditor's starting point is the acknowledgement of that reality of those facts.

An auditor can not advise a client or prepare an audit report and submit the same to the relevant parties on the basis of what might be or what the client would like the facts to be. That is an illusory exercise.

For as Gramsci has pointed out……..

"…..on the contrary, it is necessary to direct one's attention violently towards the present as it is, if one wishes to transform it……."

Gramisci The Modern Prince 175

What then is the balance between not being discouraged by the inability to change the reality at once, and on the other not basing action upon the delusion of an ideal? A working guide can be found in Romani Rolland's famous precept:

" permission of the intelligence, optimism of the will."

'Be Nobody's darling'

These words are the title of a poem by Alice Walker. Her poem will confirm the suspicion you will by now have. That none of all the above makes you popular. Not with the management and or authorities. But popularity is not why you are in the profession. A doctor's task is not to be popular with diseases, but to bring them to an end.

Your work is often a lonely exercise, but it is the character of the Accountant that she/he is able to stand alone for as long as it takes even though that may be for a long time and even though it gets lonelier as time passes. Alice Walker's poem embodies memorably that quality of mind and spirit we call independence and perseverance, which alone make our profession of value and service. **Listen:-**

Be nobody's darling,
Be an outcast
Take the contradictions
Of your life
And wrap around
You like a shawl,
The parry stones,
To keep you warm
Be an outcast,
Be pleased to walk alone
Be nobody's darling,
Be an outcast,
Qualified to live
Among your dead.

When an auditor practices fairly, it means that he pays regard not only to the results of his work but also to the manner in which he/she obtained those results and carried out his duties. Fairness is promoted ultimately not by laws but by our own belief in it. It is therefore every Accountants' great responsibility by his or her daily fairness in every audit assignment, big or small to contribute to justice and therefore directly to economic development, peace and social stability in our profession and country.

BUSINESS PRACTICE AND DEVELOPMENT

By CPA Evaline Otindo, apotaa@gmail.com, Photo: Task Firm

PROFESSIONAL LAXITY

Is it integrity or partiality?

I remember reading the Enron and Arthur Anderson scandal, it seemed so fascinating to me given I was a young girl who although outwardly interested in studying medicine always had an inner pull for the accounting professional.

I thought to myself, "wow how could that happen in such a big country for such a big company…" Notably , I like watching international news channels such as CNN and DW TV, a departure from the norm of my peers who liked watching movies and discussing girl/boy issues.(on a light touch)

When I finally joined the noble profession, I kept following the developments and the introduction of the Sarbanes Oxley Act of 2002 which was signed into law by George W Bush. Everyone thought that that was the end of the era of accounting scandals and falsification of profits.

That was simply a dream far from reality as there have been numerous accounting scandals in the world, with Kenya who adopted some of the aspects of the Sarbanes Oxley Act not being spared from the list of shame. Naturally the general public, government and regulatory bodies would immediately assume that the underlying problem causes are dishonesty and disreputable practices.

Yes, it is true that some of the serious accounting problems have been caused by dishonesty and serious errors which more often than not lead to some minor fines.

But these are a drop in the ocean as a large number of errors come from extensive client relationships which result in unconscious partiality or bias; a fact which anyone who has worked with accountants knows is true.

The unconscious bias results from these deep relationships formed with clients whose loss can lead to loss in millions of shillings and therefore not meet your targets which means a reduced bonus or non -promotion. As a result, the even the most honest and meticulous of auditors can unintentionally distort the numbers in ways that mask a company's true financial status, thereby misleading investors, regulators, and sometimes management.

Causes of bias

The root causes of this bias include:

Ambiguity

Bias thrives wherever there is the possibility of interpreting information in different ways. People tend to reach self-serving conclusions whenever ambiguity surrounds a piece of evidence. Despite the fact that it's true that many accounting decisions are straight forward, many others require interpretations of ambiguous information. With the avenue of interpretation left open, auditors and their clients have considerable leeway which leaves a lot of room for manipulation.

Such examples of ambiguity include differing definitions of simple items such as expenses and different methods of interpreting the accounting rules and standards?

Attachment

As mentioned above, auditors have strong business reasons to remain in a client's good book in view of the expected revenues which may lead to promotions and additional bonuses.

A departure from the same would mean that they are fired and replaced immediately by another auditor who is viewed to be tolerable to the client. The audit good relationships also provide a good opportunity for additional revenue streams from clients in terms of additional consultancy services offered.

Thus, the perceived expected benefits offer an opportunity to compromise on the integrity of the accounts.

Approval

An audit ultimately endorses or rejects the client's accounting. A person generally endorses a person who he perceives can provide benefits to him. This is very true of auditors who know that if the accounts are approved, they are most likely to get the next year's audit and obtain additional jobs of the assignment.This may lead to bias where material errors are overlooked and figures manipulated.

Not knowing where to draw the line between friendship and work.

This is all true. You are most likely to be corrected by a stranger rather than a person you know. This is because the stranger does not know you and thus can tell you anything. Your friend on the other hand is most likely to affect your feelings and therefore put the same in a soft way, many at times which miss the point.

Given the above, auditors may unconsciously lean toward approving the dubious accounting and their impartiality will grow stronger as their personal ties deepen. The longer an auditor serves a particular client, the more biased his judgments will tend to be.

Procastination

What is this? Procrastination is the practice of carrying out less urgent tasks in preference to more urgent ones, or doing more pleasurable things in place of less pleasurable ones, and thus putting off impending tasks to a later time, sometimes to the "last minute" before a deadline.

We tend to postpone items which are less urgent to a later date. In addition, we postpone things which are unpleasurable to do such as doing a major costly repair to your house to a later date. In a similar manner, auditors may hesitate to pin point a critical mistake which may cause damage to the relationship, potential loss of the contract, and possible unemployment.

Overconfidence

This occurs when auditors overestimate their ability to perform certain tasks or make accurate decisions. As a result of the overconfidence, auditors tend to take on too many projects, over promising deadlines not forgetting the fact that they do not have sufficient staff to handle the various assignments.

This leads to overworked audit teams who have to burn the midnight oil in order to deliver and most of the time because of the work pressure assignments tends to be done in a hurry and in a copy paste way whereby a previous report is duplicated with minor amendments.

Consequently, important aspects of the assignment are overlooked, which more often than not result in serious errors and oversights.

Rigidity

This is when decision-makers to seek or interpret evidence in ways that support pre-existing beliefs or expectations. Auditors may have this tendency when evaluating the strength of internal controls, selecting accounting standards, or estimating the probability of successfully defending a tax position in court.

This may not be always true as a person has to test something (especially in the case of an audit) to see that it is true. One should always have the mindset of guilty until proven innocent.

Immature decisions

Immature decisions occur when decision-makers form a judgment without fully considering all available data. It occurs when auditors make early decisions without considering the weightiness of the matter, without sufficient deliberation and over reliance on the word of the client. Most of the time, it is brought about by time and budgetary pressures (any one who has worked in an audit firm knows the recovery ratio of a client), wrong billing, inexperienced staff and as mentioned above rigidity and mind blocks.

Oversights

Many people tend to cover up small mistakes and oversights with small excuses/lies.

Are you one of them?

Similarly, an auditor's bias may unknowingly lead them to adapt over time to small imperfections in a client's financial practices. And as the saying goes "haba na haba hujaza kibaba", these small oversights become bigger and bigger and eventually become a big problem.

As the errors would be now material, the auditors may decide to conceal the problem, rather than expose the unwitting mistakes in view of the expected loss of image.

This may result in corruption and manipulation of the figures.

Some solutions

We must agree that auditor bias is happening in Kenya today. This is evidenced by the various financial scandals and scams that have occurred.

Both auditors and clients must take the bold step and ask themselves the question, "Is revenue more important than integrity and shareholder confidence? Are we really professional in conducting our affairs?"

At the end of the day auditor should conduct their affairs with proper professional skepticism and follow the laid quality procedures in order to have audit quality. Simply said one should (1) Identify and define the issue; (2) gather the facts and information and identify the relevant literature; (3) perform the analysis and identify potential alternatives; (4) make the decision; and (5) review and complete the documentation and rationale for the conclusion.

On the part of the client some of the key steps include auditor rotation is to avoid familiarity as well as the bias that has been seen above, separation of duties whereby the auditor is not your tax consultant. The consultant may easily pick out errors that had been made buy your auditor (a free service on your part) Auditors should fixed, limited contract periods during which they cannot be terminated. This eliminates the fear of being fired for giving an unfavorable audit report. All fees and other contractual details should be specified at the beginning of the contract and must be unchangeable. In addition, the client must be prohibited from re-hiring the auditing firm at the end of the contract.

These among other solutions provided may lead to increased professionalism in the audit profession.

By CCP. Wasilwa Miriongi, wmiriongi@gmail.com
Photo: Pinstopin

SETTING TERMS AND CONDITIONS OF SALE

In the world of business, seller just sells and buyers just buy, but come on should this be the case? The answer is No! Though there exists sale of Goods act that covers such transactions, it is wise to have written terms of sale, these comes in handy in case of credit transactions or whenever disputes arise.

In a typical terms and conditions of sale agreement the terms -"Seller" means the seller of the Goods as defined herein; "Buyer" means the entity purchasing the Goods, including any successors thereof; "Goods" means the goods, products and materials manufactured, imported, supplied and/or delivered for or by Seller to Buyer, as such were approved by Seller in reply to Buyer's order and accordingly listed in the Approval of Order; "Approval of Order", in respect of any Buyer's order, means the instrument issued by Seller, bearing the same reference number of such order and specifying, among any other terms, the items of Goods, including their respective price and quantity, which shall be supplied to Buyer upon such order; "Contract" means the contract for the supply of Goods which have been ordered by Buyer and specified in Seller's Approval of Order, which contract is concluded based on these Terms and Conditions of Sale unless otherwise specified in the Approval of Order.

Disputes, misunderstandings, accounts riddled with conflict and rising impatience – how do they start? Why does a supplier/customer relationship wither away, future sales and past profit lost, when it began with such promise?

Difficulties are often germinating the moment the first order is processed. Without a strong foundation, the relationship may appear robust, but it has no resistance against adversity.

Sales representatives plant the seeds, show the pretty picture to credit, and hope to harvest perennial commissions. Credit, order processing, supplying, compliance, cash application and customer service tend to the daily tasks of nurturing. Expectations, assumptions and confusion are the enemies. Cultivation is the cure.

Many trade creditors are revisiting their terms and conditions of sale, not just to review the content, but to consider the form and timing of the disclosures, to talk to sales and assess the representatives' understanding of company policy. How clearly stated are the terms? How and when are they presented? What conditions must be present or met to allow for returns? For granting credit, is there a provision requiring notification of a change in bank, ownership, management? In other words, can a trade creditor at least try to establish a foundation of understanding before weeds germinate?

Form

Are the terms and conditions of sale incorporated into the body of the credit application, on the back of the application, in a separate document, on the signed order from and/or disclosed in the purchase order confirmation prior to supply?

If they do not appear above the customer's signature on the application, another signature is required, verifying the applicant's review and understanding. If certain terms and conditions only appear on the invoice, generated after the order, it's difficult to present a strong, credible argument that the customer understood, prior to purchase, what was expected or the ramifications of late payment. Commercial collection agencies will not add collection fees or interest in excess of the state's legal rate (if, indeed, the debtor's state allows them at all) unless they are provided for in the terms and conditions, acknowledged by the customer's signature prior to the transaction.

If the terms and conditions are in a separate document, the signed copy is kept for the customer file, but another copy can be given to the customer for his convenience, should he need to refer to it. It's not only a nice PR gesture, but offers excellent leverage if, after the account becomes delinquent, the customer suddenly claims the supply was late or there was defective merchandise.

Are the term categories clearly indicated? A long document, with tiny print and continuous text may not be as well understood as short paragraphs under emboldened headings, i.e. PRICING, GENERAL RETURNS, DEFECTIVE MERCHANDISE, PAYMENT POLICIES.

Content

What is in it that is most important for the customer to understand? What has been learned from previous customer conflicts? Are discounts allowed on closeouts and special promotions? Perhaps it's an important issue to address. No company can cover every exigency, but some of the most common policies included in the document, depending upon the creditor's industry, product and procedures, are:

- Terms on First Orders (CIA, COD, Credit Card?)
- Time Allowance for Application
- Processing
- Purchase Orders
- Pricing
- Discounts
- Minimum Orders
- Drop deliveries
- Order Processing and Fulfillment
- Supply Procedures, Carrier and Charges
- Back Orders
- Responsibility for Assembly
- NSF Charges/Impact on Credit Line
- Cancellations
- Shortages & Overages
- Packing Errors and Damages
- General Returns, Return Authorization &'s & Restocking Charges
- Notification of changes in Ownership or Management
- Notification of Changes in the Entity Organization, From and To:
- Sole Proprietorship
- Limited Partnership
- Limited Liability Company
- Limited Liability Partnership
- Corporation
- Force Majeure
- Terms of Sale (including interest charged)
- The right to convert credit terms to credit card, CIA or COD at the vendor's discretion
- Periodic Credit Reviews
- Collection Agency Assignment
- Collection Fees and Legal Fees

The Importance of Terms and Conditions of Sale

Today's quality systems mandate contract review as an integral part of an enterprise's critical business system. Terms and conditions are rarely given the critical examination that they deserve. While they are often thought of as mere contingency details, the day may come when the contingency has arrived. How has your

organization implemented contract review?

Why is it so important to have written terms and conditions in place when you do business? Here are the seven main reasons. Your standard terms and conditions (ie the legal basis on which you are willing to do business with your customers) should be the first legal document that you put in place when you are starting a business.

You should consult a specialist commercial contracts lawyer and discuss what your business does, the key processes within your business and your typical customers. The lawyer will then draft you a robust set of standard terms that you will use for each future transaction, with you just stating the points particular to each customer (such as the exact services or goods and price) in the purchase order or in a schedule.

You pay one upfront fee and use the terms and conditions again and again, safe in the knowledge that your business is properly protected. They are essential for any business for the following reasons:

1. Written terms and conditions help to create certainty as to the agreement

Oral contracts are in theory just as enforceable as written contracts, but the main problems with oral contracts are evidence and certainty. You may forget some of the terms that have been agreed with the passage of time or there may be a dispute as to what was actually agreed. Similarly, with emails back and forth, it can be difficult to work out what was actually agreed. It is much easier to have your standard terms and conditions to hand that have been drafted by a lawyer and clearly set out the position on all important matters. It will also cost you a lot more in legal fees if you have any dispute if a lawyer has to spend time reading through chains of emails to work out what the contractual position is rather than it already being drafted in plain English.

2. Written terms and conditions help to minimise legal disputes and the chances of you being taken to court

If you do have clear written terms covering all of the necessary areas of your provision of goods or services, the chance of a legal dispute is minimised as a lawyer will advise the customer that the terms are clear on the matter and they would have little chance of winning if the matter were to go to court. Accordingly, you are less likely to be taken to court.

3. Written terms and conditions help you to cover all of the important matters and not overlook the things that are less obvious

As a non-lawyer, you will probably consider the more business-related terms such as price, payment terms and delivery costs, but you may not think about limiting your liability, disclaiming your liability for failure or delay caused by force majeure, protection of your intellectual property rights and the passing of title and risk. A well drafted set of terms and conditions will fully protect your position.

4. Written terms and conditions help you to enforce your agreement

If you have clear terms and conditions, it will be clear where a customer has breached the contract. Written contracts are much easier to enforce should you wish to take a customer to court (for example for non-payment).

5. Written terms and conditions help you to provide good customer service

A clear set of terms and conditions that are applied consistently to all customers can assist you with providing good customer service. With regard to the protections for you, it will not come as a surprise to the customer when you seek to enforce a right specified in the terms.

Moreover, in addition to including protections for you as the supplier, you can also include rights for your customers in your terms to provide them with reassurance as to how you will handle the agreement, for example sections on complaints, refunds and insurance.

6. Written terms and conditions help to avoid mismatched expectations

Mismatched expectations are not good for your business! For example, if you are supplying products, your customer may expect delivery within two days. You might actually require two weeks as you are importing the goods from overseas. If you spell this out clearly in your terms and conditions, you will have less disgruntled customers and save time on administration in answering calls from customers wondering where there products are.

If you are a supplier of services, a written contract is almost more important for this reason. If you are a website designer for example, it is always advisable to have as detailed a specification as possible so that there are no mismatched expectations as to timescales, layout, further charges etc.

7. Written terms and conditions help you comply with the law

There may be certain regulations that apply to your particular industry that you would be wise to make reference to in your terms and conditions. If you are carrying on e-commerce, the law requires you to provide certain information to your customers in writing prior to conclusion of the contract and this is usually set out in written terms and conditions. The Provisions of Services Regulations that came into force in late 2009 require suppliers of services to provide the customer with certain information and the appropriate place for this is in the terms and conditions.

Conclusion

Put some time and effort into familiarising yourself with standard terms and conditions. Be sure that they work for your specific business and then get them checked by your lawyers. Make sure that your customers are well aware, or on notice, of their contents. Incompatible and/or confused expectations between parties are not good for your business, whereas clear written terms and conditions will help you to enforce your agreement.

By Victor Mutindah, Photo: Becuo, Biography

ENTERPRISING INNOVATIVENESS

Whenever the topic of money and wealth arises, everyone has one, two things to say. Each living human being is in search of riches and thus it is a topic of general concern for both extremes of the social ladder. Those that lack want and those with wealth still desire more riches and go through great lengths to get it. A lot of people can attest to falling for pyramid schemes that promised immense riches or a night of gambling. Various pursuits for wealth, some not legit have led to many a downfall; after all 'excess greed of money is the root of all evil'.

Not all roads lead to hell however, not pun-intended - but with strategic financial and wealth innovation one can attain the riches he/she desires. The key is to innovate, create something that will outlast even you. Whatever your idea, so long as it's viable the go for it.

A man such as Alexander Graham Bell would be speechless if he were to find himself in this century. His innovation; the telephone is now a must have in all societal areas. Communication was made easier by his bold move to create a telephone despite obvious setback. In this time and day, people can't do without a cellphone and more so with the social media craze, even seems this idea will keep evolving and not burn out.

In this age and era, creativity is quite essential; it's simply the mental and social process of generating new ideas. It leads to innovation, and when put into action or properly implemented, finally leads to financial stability. We can describe innovation as the process of translating an idea or even an invention into a good or a service that creates value or income. According to Forbes magazine the following are;

Steps in Creativity

- Doubteverything;challengeyourcurrent perspective
- Probe the possible; explore options around you
- Diverge; Generate many new ideas, even if they seem absurd
- Converge; Evaluate and pick the ideas that are most viable and applicable
- Re-evaluate; relentlessly go through all ideas since it takes a brief moment for the idea to be over shadowed.

A lot of life changing ideas were animated by ordinary people thus don't let the above steps-wise procedure scare you off. Peter Drucker identified seven sources of ideas to be;

1. Unexpected occurrences
2. Incongruities of various kinds
3. Process needs
4. Changes in an industry/market
5. Demographic changes
6. Change in Perceptions
7. New knowledge

Thus one doesn't need Exceptionally high IQ or great intellectual attributes to think and work through an idea. Everything around you can spur up an idea, e.g. the one who came up with the idea of a laptop may have owned a desktop he wanted to move about but it was cumbersome and time consuming. Then he had a Eureka! moment and now most students and young business people can't do without these portable computers.

An old skill that helps increase wealth is saving, saving and more saving plus investing wisely; no pyramid schemes please! Though this is common knowledge that adjustment in one's financial practices help manage wealth, it's proved difficult to implement for some. Almost always the amount of expenditure exceeds money that actually comes into the account.

However, not everyone that tries fails thus first off one needs to account for all expenditure once money enters their accounts/ pockets. A daily record is key in doing this. The internet may help you on this one if not the common Microsoft office tools such as spreadsheets can be used to create a record. You could have a row of dates and columns of expenditure such as "daily meals, shopping, salon appointments, medical, miscellaneous and savings".

Keeping a record helps one in budgeting, which is key to managing finances. You'll need to track all expenses for a month then take stock of what was spent and make your final budget. Once established, the budget should help you spend money successfully e.g. if you can borrow don't buy, spend what you have not what you hope to make. After all the above have been successfully put into place, then it's time to make smart investments. This can be done through; familiarizing one's self with several investment options, don't gamble with saved up money, have a smart insurance plan and don't be afraid to take risks.

As stated before, saving money is a sure way of managing the money you have. This can be done by;

a) Holding away as much of one's expendableincomeaspossible.Always treatyoursavingsasanyothernecessary expense.
b) Starting an emergency fund, this helpstoavoidsurpriseexpensese.g.car breakdown
c) Keeping away a three to six month allowance worth of your daily expenses.
d) Always ensure you pay off debts once you've established them

Your money is supposed to work for you so treat yourself occasionally but within reason. Don't be a slave to the financial management plan you're subscribed to, but discipline is key.

Alexander Graham Bell: Educator, Scientist, Inventor, Linguist (1847–1922)

INNOVATION

By Associate Peter Maina, C.M.Maingi and co., Certified Public Accountants, Photo: YouInc

WHAT IS SOCIAL ENTREPRENEURSHIP?

Social entrepreneurs are entrepreneurs who scan the social environment and seize available opportunities by enhancing systems and developing new approaches as well as providing remedies to a society's culture for the better. The coverage includes education health environment and enterprise development.

Schwab foundation describes a social entrepreneur as a person who

- Achieves large-scale sustainable social change
- Focuses on social /ecological value creation
- Innovates a new way of tackling a social problem

They are people who have unwavering faith in the courses that they believe in and the zeal to make it happen.

Social business can either be; not for profit organizations, hybrid organizations or profit making ventures.

The Not for profit organizations focus on addressing government failures. They rely on donor funding to exist.

The hybrid organizations operate on a premise of cost recovery. They create programs which assist them to meet their costs to supplement what they get from donors.

In 2011 Kenya and the world lost a great icon of modern day history, Professor Wangari Maathai. The late Wangari was a Nobel prize winner for her advocacy on environment and the promotion of democracy. The Greenbelt movement which she founded empowers rural women by encouraging them to come together and plant tree seedlings in exchange for monetary benefits, in the process raising awareness about the environment.

The profit ventures are businesses which provide social eco friendly products. The business owner of a social business seek financiers who are interested in incorporating monetary as well as social returns on their investments.

Some of the hindrances to social entrepreneurship include;

- Most people are not aware of business opportunities available to them
- Most entrepreneurs struggle with accessing capital for their ventures and when they do most of them think of short term profitability.

The following are a few social entrepreneurs who have excelled in their social enterprises.

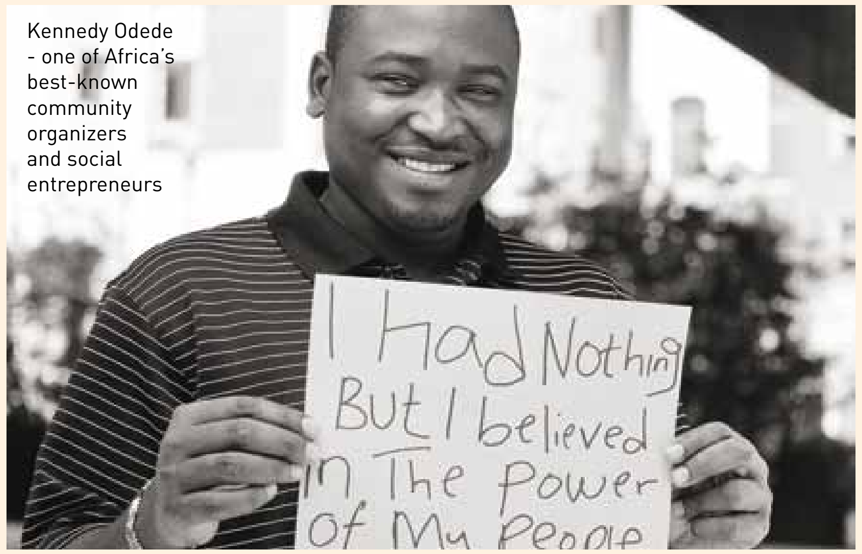
Kennedy Odede was ranked as top under 40 men in Kenya as well as Forbes top thirty under thirty in the Forbes list in 2014. His story is an inspiration to many; he grew up in Kibra under extreme poverty. In 2004 he began Shining Hope for Communities (SHOFCO) movement, one of the largest grass root organizations in the slums. Shining Hope for Communities (SHOFCO) combats gender inequality and extreme poverty in urban slums by linking tuition free schools for girls as well as providing services needed by slum dwellers the most such as clean water, sanitation and toilet facilities. The organization is run through donations. This noble venture has not only won him accolades all over the world but has touched and changed the lives of many both in Kibra and Mathare slums.

In 2011 Kenya and the world lost a great icon of modern day history, Professor Wangari Maathai. The late Wangari was a Nobel prize winner for her advocacy on environment and the promotion of democracy. The Greenbelt movement which she founded empowers rural women by encouraging them to come together and plant tree seedlings in exchange for monetary benefits, in the process raising awareness about the environment. The late Professor Wangari Mathaai is celebrated on 3 March every year in conjunction with Africa Environmental Day as well as World Wildlife Day.


The late Wangari Maathai, Peace Nobel Prize

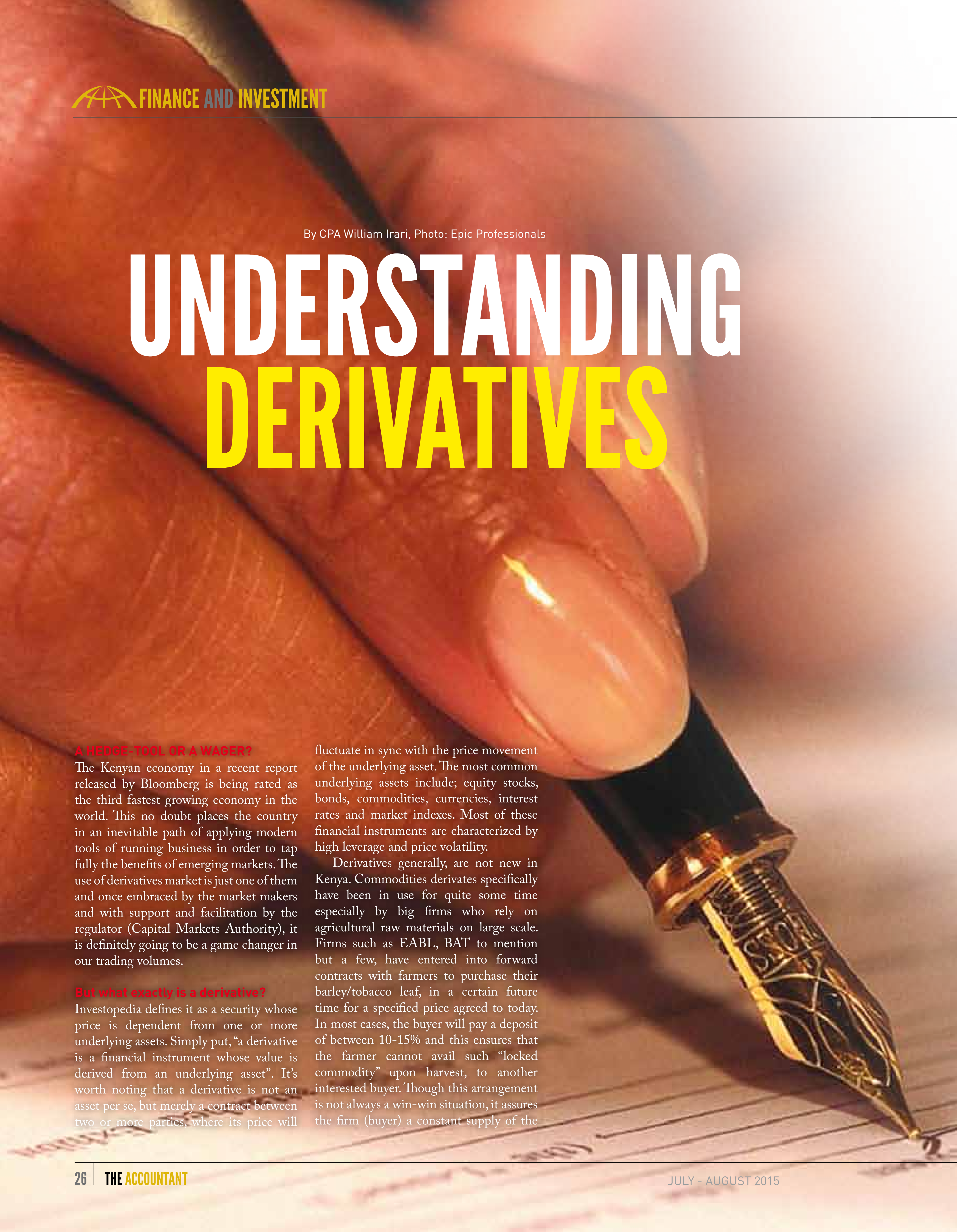
Evans wadogo through Sustainable Development for all supply solar lanterns to families in the rural areas as an alternative to kerosene and paraffin lamps which have detrimental health effects on health. This noble idea developed out of his own experience when growing up. The lanterns are made from scrap material which is easy to assemble. This saves these families on cost of providing light during the and the adverse effects of the fossil fuels.

These are only a few social entrepreneurs in the country and the world at large. They are making a difference in the society by eliminating the various social evils and in the process uplifting the livelihoods of the communities they work around. You too can be a social entrepreneur and make a difference in someone's life and you never know you might make a few coins along the way!



Kennedy Odede - one of Africa's best-known community organizers and social entrepreneurs

FINANCE AND INVESTMENT



By CPA William Irari, Photo: Epic Professionals

UNDERSTANDING DERIVATIVES

A HEDGE-TOOL OR A WAGER?

The Kenyan economy in a recent report released by Bloomberg is being rated as the third fastest growing economy in the world. This no doubt places the country in an inevitable path of applying modern tools of running business in order to tap fully the benefits of emerging markets. The use of derivatives market is just one of them and once embraced by the market makers and with support and facilitation by the regulator (Capital Markets Authority), it is definitely going to be a game changer in our trading volumes.

But what exactly is a derivative?

Investopedia defines it as a security whose price is dependent from one or more underlying assets. Simply put, "a derivative is a financial instrument whose value is derived from an underlying asset". It's worth noting that a derivative is not an asset per se, but merely a contract between two or more parties, where its price will fluctuate in sync with the price movement of the underlying asset. The most common underlying assets include; equity stocks, bonds, commodities, currencies, interest rates and market indexes. Most of these financial instruments are characterized by high leverage and price volatility.

Derivatives generally, are not new in Kenya. Commodities derivates specifically have been in use for quite some time especially by big firms who rely on agricultural raw materials on large scale. Firms such as EABL, BAT to mention but a few, have entered into forward contracts with farmers to purchase their barley/tobacco leaf, in a certain future time for a specified price agreed to today. In most cases, the buyer will pay a deposit of between 10-15% and this ensures that the farmer cannot avail such "locked commodity" upon harvest, to another interested buyer. Though this arrangement is not always a win-win situation, it assures the firm (buyer) a constant supply of the commodity devoid of exposure to price fluctuations (as price is already locked) and at the same time the farmer (seller) has less hustles in seeking a market for his produce while eliminating the middlemen and cutting down on the supply chain.

The above scenario describes in a nutshell two major characteristics that are inherent in all types of derivatives. They are;

a) Used as a tool for speculative purposes
b) Used as an instrument to hedge risks

Let us look briefly on each of the above characteristic

SPECULATIVE PURPOSES

The skeptics of derivates believe that these so called futures and forwards markets (derivatives) are nothing short of gambling. There is an element of truth in this though, as the future is highly unknown even by the most calculative financial analysts due to unforeseeable associated risks or drastic change of events from the norm. This however does not water down the benefits of derivative markets which coincidentally are symbiotic in nature. Speculation is the art of predicting a certain outcome based on some prevailing circumstances which leads to a speculator looking for a business opportunity as the ultimate plan. One good example of speculation is exercising an arbitrage opportunity. This happens when there is a disparity in pricing of the same instruments in different locations (where geographical cost is negligible and no capital outlay). The arbitrageur will buy the product in the low priced market and immediately offloads it in the high-priced market thereby earning a riskless profit. As much as this may sound like a get-rich-quick hustle free enterprise, it does not last for long since many players come into the market with the same agenda and the prices steadily stabilizes itself. Picture this; if a trader had already bought the product in a low price region anticipating to offload it to the high- price environment, only to find the price has plummeted further, there's no guessing as to the end-result. Granted, derivatives are complex instruments with an element of chancing where, like any other business, luck may tilt the scales either way.

As mentioned earlier, derivatives are not a new phenomenon in Kenya. A few years ago, a major local airline entered into a fuel hedge in order to mitigate losses arising from volatile escalating fuel costs at the time. Soon after, a major shift of events led to oil prices swinging downwards, turning upside down the fortunes of this firm and where savings had been expected, a loss to a tune of one billion was in the offing. It was a humbling experience for the management to justify the use the fuel derivative (hedge) where the company would have certainly done relatively better without it.

HEDGE INSTRUMENTS

Future is uncertain and for that purpose, risks surround its very core and as described above, it is the deviation from the expected outcome. There are many ways in which an investor (firm or individual) can manage risks. Key among them includes;

- Absorbing the risk
- Mitigating the risk
- Transferring the risk

A rational investor and one who is risk-averse would chose to transfer risk as opposed to absorbing it. He would be willing to pay a premium to the person who can carry the risk on his behalf. This is called hedging and it is exercised in many forms. A best example is the fuel hedge discussed above. Other forms include currency hedge, interest rate hedge, etc. It is worth noting that a hedge fund, which is by definition an investment vehicle and a business structure that pools capital from a number of investors who invests in various securities, is not necessarily a hedging technique. Option contracts are perhaps the best derivative to hedge one's position. This is because an option contract gives the right but not an obligation to its holder to exercise it upon occurrence of a specified event, where the holder will only exercise if it is advantageous to do so. Let me illustrate how a derivative can be used as a hedge instrument: Supposing a European investor purchases shares of an American company off an American exchange (using US dollars to do so), he would be exposed to exchange rate risk while holding that stock. To hedge this risk, the investor could purchase currency futures to lock in a specified rate for the future stock sale and currency conversion back into Euros.

It is imperative to emphasis that not all derivatives are regulated or traded in a formal exchange. Examples include forwards, options, hedge funds, etc. These are traded over the counter (OTC) and are much dependent on the goodwill and trust existing between the two parties to the contract. They are also packaged and tailor-made to suit the party's satisfaction. On the other hand, derivatives such as futures are well regulated, standardized and are traded on the floor of the exchange e.g. SEC of US.

DERIVATIVE MARKETS – IS KENYA READY FOR TAKE-OFF?

I am highly optimistic that Kenya is ready to exploit these derivative instruments to their full potential through investor education, proper legislation, fair tax regime etc and to the best of my opinion having a separate Futures Commission from the current one (NSE). The regulator should allay fears of potential investors so that they can see derivates as modern way of trading and not gambling and at the same time easing the thresholds of punitive capital requirements. A case in point is where Real Estate Investments Trusts (REITs) were introduced a couple of years ago but whose uptake has remained low due to prohibitive capital outlay. Perhaps the NSE deserves to be commended for coming up with policies of making easy for small to medium companies to list on the exchange. Growth Enterprise Market Segment (GEMS) introduced a few years ago by NSE, is a good example of how such policies can spur economic growth.

The government too needs to exploit derivates in combating some of the setbacks and bottlenecks affecting its citizenry. It is interesting to note that even a weather derivative exists! This is an instrument used by companies to hedge against the risk of weather-related losses. The investor who sells a weather derivative agrees to bear the risk for a premium. If nothing happens, he makes a profit but if the weather turns bad (e.g. prolonged drought or flooding), then the company who buys the derivative claims the agreed amount. Other derivatives such as property, energy, shipping, etc can also be structured in similar manner.

CONCLUSION

As Charles Darwin, author of Origin of Species, once stated,"It is not the fittest, nor the strongest of the species that survive, but the one that is more adaptive to change". We as a country must accept change by embracing modern way of mobilizing capital and wealth creation and use of derivatives is just the tip of the iceberg.

The writer holds MBA (finance), CPAK and CSIA

By CPA Mohamed Ebrahim
Photos: Bank Alfalah, QIB, Wordpress

ISLAMIC HOME FINANCING

Islamic Home Financing at a minimum involves 2 contracts that are usually an Ijarah Wa Iktana (Islamic leasing) and diminishing Musharakah (reducing partnership).
This structure involves 2 steps:
1) An Individual and an Islamic Financial Institution enter into a Musharakah (Partnership) contract to buy a house, where the individual provides, let's say 20% of the price of the house, and the Islamic Financial Institution 80%. The legal title of ownership is left to the Islamic Financial Institution.
2) Then the Islamic Financial Institution enters into an Ijarah contract with the lessee, where the Islamic Financial Institution rents out its share (80%) of the house to the lessee. At this point the legal title of the house is still held by the Islamic Financial Institution; and the Individual gets an ownership of the usufruct (right to use) of the house.

The individual pays monthly installments over the course of the agreed period. When the last payment was made by the Individual at the end of the agreed period of the house, meaning that the individual has paid the whole price of the house and is the 100% owner, the Islamic Financial Institution would sell the house for a nominal value (i.e. Kshs/USD/GBP 1) and, finally, gets the legal title of the ownership of the house.
The Lease is usually accompanied by a customer's promise to purchase. During the lease, the customer has no ownership. There is no sharing. The actual development of the lease can be complicated by local laws as well as how the rental flow is structured.
NB: The diminishing Musharaka with Ijara wa Iktana are two relationships: co-ownership (which has several ways of being documented depending upon local laws); leasing (which also can have different approaches); with a promise to sell/purchase. Ijarah (Islamic leasing), allows a lessee (the individual) to take an ownership of the usufruct of a house. A lessee will pay periodic installments based on the Islamic Financial Institutions share of ownership.
PS: For a Financing for a House to be constructed Istisna'a contract can be used

Terminology Explained

Musharaka: - A form of partnership between the Islamic bank and its clients whereby each party contributes to the capital of partnership in equal or varying degrees to establish a new project or share in an existing one, and whereby each of the parties becomes an owner of the capital on a permanent or declining basis and shall have his due share of profits. However, losses are shared in proportion to the contributed capital. It is not permissible to stipulate otherwise. *Ijarah and Ijarah Wa Iktana:* - A lease agreement (similar to a hire purchase agreement) whereby instead of lending money and earning interest, the Islamic bank purchases the asset and rents it to the party requiring the asset and earns rental income. In ijarah wa iktana the renter agrees to buy the asset at a nominal price at the end of the contract. In ijarah (plain version) there is no such agreement to purchase the asset.

Istisna'a: - A contract whereby the purchaser asks the seller to manufacture a specifically defined product using the seller's raw materials at a given price. The contractual agreement of Istisna' has characteristic similar to that of Salam in that it provides for the sale of a product not available at the time of sale. It also has a characteristic similar to the ordinary sale in that the price may be paid on credit; however, unlike Salam, the price in the Istisna' contract is not paid when the deal is concluded.

Illustration

Mohamed wished to purchase a KShs.22,000,000 house and he has Kshs 2,000,000 as down payment and finances the balance of Kshs 20,000,000 from the Islamic Financial Institution over 20 years and bank sets a 5% rental rate. For the sake of simplicity, we'll make it 20 annual repayments.

In the first column (see Table below) we have the year. In the second column we have Mohamed's equity purchase (his share), The third column Mohamed's equity purchase amount, which is how much the he pays every each year for buying the property's equity. In this way Mohamed increases his share of ownership in the property, while diminishing the Islamic Financial Institution share of ownership, shown in the fourth column. The fifth column shows the Rent, i.e. what the homebuyer pays the Islamic Financial Institution for that portion of the property he doesn't as yet own. The sixth and final column shows what Mohamed pays in total every year.

CPA Mohammed Ebrahim holds an MBA (Manchester), CGMA, ACMA, CIFE. He is Partner in Ace Associates – Certified Public Accountants and is currently the CEO of Ace Financial Advisory Ltd

Table : Mohamed's Diminishing Musharakah

Year	Homebuyer's Equity Kshs	Homebuyer's Equity Purchase Kshs	Bank's Ownership Kshs	Rental Kshs	Total Payment Kshs
Start 2015	2,000,000	2,000,000	20,000,000	-	2,000,000
2015 End	3,000,000	1,000,000	19,000,000	1,000,000	2,000,000
2016	4,000,000	1,000,000	18,000,000	950,000	1,950,000
2017	5,000,000	1,000,000	17,000,000	900,000	1,900,000
2018	6,000,000	1,000,000	16,000,000	850,000	1,850,000
2019	7,000,000	1,000,000	15,000,000	800,000	1,800,000
2020	8,000,000	1,000,000	14,000,000	750,000	1,750,000
2021	9,000,000	1,000,000	13,000,000	700,000	1,700,000
2022	10,000,000	1,000,000	12,000,000	650,000	1,650,000
2023	11,000,000	1,000,000	11,000,000	600,000	1,600,000
2024	12,000,000	1,000,000	10,000,000	550,000	1,550,000
2025	13,000,000	1,000,000	9,000,000	500,000	1,500,000
2026	14,000,000	1,000,000	8,000,000	450,000	1,450,000
2027	15,000,000	1,000,000	7,000,000	400,000	1,400,000
2028	16,000,000	1,000,000	6,000,000	350,000	1,350,000
2029	17,000,000	1,000,000	5,000,000	300,000	1,300,000
2030	18,000,000	1,000,000	4,000,000	250,000	1,250,000
2031	19,000,000	1,000,000	3,000,000	200,000	1,200,000
2032	20,000,000	1,000,000	2,000,000	150,000	1,150,000
2033	21,000,000	1,000,000	1,000,000	100,000	1,100,000
2034	22,000,000	1,000,000	0	50,000	1,050,000
Total	-	22,000,000			

The homebuyer just pays for two things: the house, in installments and the rent, for the portion of the house he doesn't yet own.

FINANCE AND INVESTMENT

By CPA Victor Kibe, Photo: Blogspot

CHOOSING A BANK ACCOUNT FOR YOUR BUSINESS

Different business entities have different needs in many aspects. One of the choices to make in a business is opening an appropriate bank account that will meet most of your needs. The government through legislature and various stakeholders has tried to secure funds deposited in banks in order to make investors secure to deposit their funds in the country. Banks have become an indispensable part of trading with the increase in the size and number of transactions done through these financial institutions.

The banking industry in Kenya is regulated by the constitution of Kenya through the Banking Act (2014), Central Bank of Kenya Act (2014), Microfinance Act (2006), The National Payment System Act (2011), and Kenya Deposit Insurance Act (2012). Many Kenyans today are affected by what happens in the banking sector.

In 2003 only 3 million people in the country had bank accounts. To date more than 15 million people have bank accounts and the number is still rising. This makes Kenya ahead of economy giants in Africa such as Nigeria where 80 percent of the population do not have a bank account despite having many rich people in their population. But this change came through innovations in the banking sector where banking was made available to the bottom of the pyramid. Such innovations included zero bank account maintenance fee and free ATM cards as well as introduction of mobile banking.

There has been a stiff competition for clients in this industry and this has led to innovation of different account types that will suit different requirements for the market. Having the right bank account for your business will mark the start of a smooth flow of cash flow activities and avoiding occurrences of liquidity problems.

It is advisable to maintain few bank accounts in order to be able to reconcile all your accounts in good time. This will give you time to clear out issues in your bank statements with your bankers. Keeping your money together will increase your credit rating with your banker and your request for financing will have a higher chance of success.

If your business uses the bank on a high frequency then this will call for an account that attracts minimal bank charges and one which does not restrict the number of monthly transactions. Bank charges appear to be small but given time they can accumulate to be a huge sum that could have been part of savings had the right bank account been chosen. Before one opens an account it is prudent to enquire from the banking facility on the existence of an account that charges low fees in respect to cheque book issuance, account maintenance and ATM transactions.

In the wake of international and interbank transactions it will be expedient to bank with a bank that is connected to facilities such as VISA or MasterCard. This will enable you to access your funds through other banks that are connected. These cards are able to take different currencies making them appropriate for settling foreign bills.

Kenya was the first country to make mobile banking a reality. Mobile banking in Kenya was launched in 2007. This type of banking was embraced by Kenyans in a great way. To date more than two thirds of Kenya's adult population have been registered for mobile banking. There are approximately 800 bank branches in Kenya compared to more than 17,000 mobile money agents in the country. Your phone can serve as your bank if your service provider after registration with your service provider. This will save you long queues in the brick and mortar banking halls. You will be able to deposit money directly to your bank, pay your bills, receive payments and apply for loans at the comfort of your home or office.

Online banking has become an important tool for those businesses that have a huge number of clients. Institutions like schools are able to confirm payments from students within a few minutes of making the transaction. It becomes more convenient when there is a need to generate statements in short intervals of time. Online banking has become even more user friendly through the development of mobile applications that are easy to use.

Your bank account can serve other purposes other than keeping your money safe. Fixed Deposit Receipt accounts are a good way of increasing your income. These accounts offer interest on deposits at competitive rates currently ranging from 7-13 percent according the terms of the deposit. The current accounts do not offer high interest rates if any and it is advisable to transfer your excess funds to an account that will gain interest income. The minimum threshold for an FDR will be dependent upon the policy of the bank. It is important to have knowledge of different rates and minimum required funds for you to make the optimal returns from your savings.

In some cases you may need to have quality time with your banker. Since this cannot be achieved over the teller's counter, banks have come up with premium accounts. These are accounts for those holders that don't have to queue. The bank charges for these accounts are higher than ordinary accounts but they are suitable for large organizations or for affluent people who have huge transactions. The luxuries offered to premium account holders may vary from one bank to another. Some banks offer you a comfortable chair in a spacious lounge as you wait, sometimes coffee or tea before the discussion, consultancy services from the experts besides getting a twenty four hour service. This package may involve a custom service such as getting preferential fees and rates different from standard clients. Depending on the type of client you are the bank under this type of account can offer you free overdraft facility and even allow you to withdraw beyond ordinary limits through their ATMs.

Having the right bank account for your business will be a step in the right direction towards the growth and expansion of your business. What clients want from their service providers is peace of mind and having a convenient bank account will solve you ambiguities and enhance simplicity in your trading transactions in future.

COVER STORY

By FCPA Jim McFie, a fellow of the Institute of Certified Public Accountants of Kenya

Kenya Budget 2015/16 Analysis

50% *increase in development expenditure*

Putting together the figures for the Kenya Government budget is not an easy task. I have in front of me the "Budget Highlights 2015/16: The Mwananchi Guide": according to this document, total Government expenditure for the fiscal year 2015/16 is KShs 2,234.0 bn: the electronic version states the total as KShs 2,209.1 bn. I have several other documents on the budget; trying to decide which the correct figure is is difficult. But subject to this caveat, the numbers in the table in this article are good estimates of what the figures ought to be.

I often argue that the targets set for the Kenya Revenue Authority (KRA) by the Government are far too ambitious: to achieve these targets, the KRA acts as a Chicago gang extracting protection money from its victims. On top of this, the county governments are now setting themselves totally unrealistic budget figures. The result is that entrepreneurs in some counties have gone on strike against the taxes levied on them. Some counties are so unfriendly to business that business people are moving to other counties. In Kajiado, for example, if you buy one hundred hectares of land, you have to surrender ten percent, that is ten hectares, to the county; if you shoot a commercial film in Kajiado, you have to pay Shs 200,000 per shooting – a private film requires a license costing Shs 100,000 per shooting – so make sure you do not shoot a video of a friend in his or her private house in Kajiado – you may have to part with Shs 100,000 to the county government.

A query that many people raise about Government borrowing in Kenya is whether or not this borrowing is sustainable. A comparison with the level of borrowing of other countries around the world is enlightening. According to the World Fact Book produced by the Central Intelligence Agency (CIA) of the United States (US) government, the most indebted country relative to its 2014 Gross Domestic Product (GDP) is Japan at 227.7%; next in order come Zimbabwe at 181.0%, Greece at 174.5%, Lebanon at 142.2%, Italy at 134.1%, Jamaica at 132.0%, Portugal at 131.0%, Cyprus at 119.4%, Ireland at 118.9% and Grenadaat 110.0%(based on its 2012 GDP). Singapore is the eleventh most indebted country at 106.7%; the UK is twenty fourth at 86.6%; the US is thirty ninth at 71.2%; Kenya is fifty seventh at 58.9%; South Africa seventy sixth at 47.3%; Tanzania eighty eighth at 42.9%; Burundi ninety ninth at 38.6%; Uganda one hundred and tenth at 35.7%;Rwanda one hundred and twenty first at 31.4% and Nigeria one hundred and forty ninth at 11.7% : the least indebted country on the list, at position one hundred and sixty four, is Saudi Arabia at 1.6% of its 2014 GDP. The reliability of these numbers is questionable. According to the US Bureau of Public Debt, government debt to GDP in the United States was 101.5% of the country's Gross Domestic Product in 2013: the ratio could not have fallen to 71.2% in a single year. Government debt to GDP in the US averaged 60.8% from 1940 until 2013, reaching an all-time high of 121.7% in 1946 immediately after the Second World War, and a record low of 31.7% in 1974, the year Richard Nixon resigned as the President of the US. On Tuesday 16 June 2015, Bloomberg Business reported that US government debt is expected to rise to 107% of GDP in 2040 from 74.0% this year: these numbers were produced by the Congressional Budget Office (CBO). The CBO based its prediction on an aging population and rising health-care costs (which are already the highest in the world). The CBO added that with debt "already unusually high" relative to gross domestic product, "further sustained increases could be especially harmful to economic growth; to put the federal budget on a sustainable path for the long term, lawmakers would have to make major changes to tax policies, spending policies, or both." One can see that it is not only in Kenya that it is difficult to arrive at a single figure when one is talking about government spending.

Knoema (a joint venture by Russian and Indian technology professionals launched in April 2012; it is marketed by its creators as "your personal knowledge highway"; it combines data-gathering with presentation to create an online bank of socioeconomic and environmental data-sets) shows Kenya's current government debt to GDP at 50.1%. The number given by Trading Economics dot com is 49.8%; this publication also shows that between 1998 and 2014, the highest ratio of government debt to GDP was 78.3% in 2000 and the lowest at 42.8% in 2009. Many companies borrow to fund capital expenditure: if the Kenya Government Budget was presented in line with commercial practice, many of us would be more comfortable about Government borrowing. So despite the warning reported so vocally by the press of government debt levels in Kenya bythe International Monetary Fund (IMF) managing director, Christine Lagarde,I think the country can well afford the debt that it has and will acquire in the next few years.Without studying the matter in some detail, I was a worried person: but as you well know, a little knowledge is a dangerous thing.

> **I often argue that the targets set for the Kenya Revenue Authority (KRA) by the Government are far too ambitious: to achieve these targets, the KRA acts as a Chicago gang extracting protection money from its victims. On top of this, the county governments are now setting themselves totally unrealistic budget figures. The result is that entrepreneurs in some counties have gone on strike against the taxes levied on them.**

COVER STORY

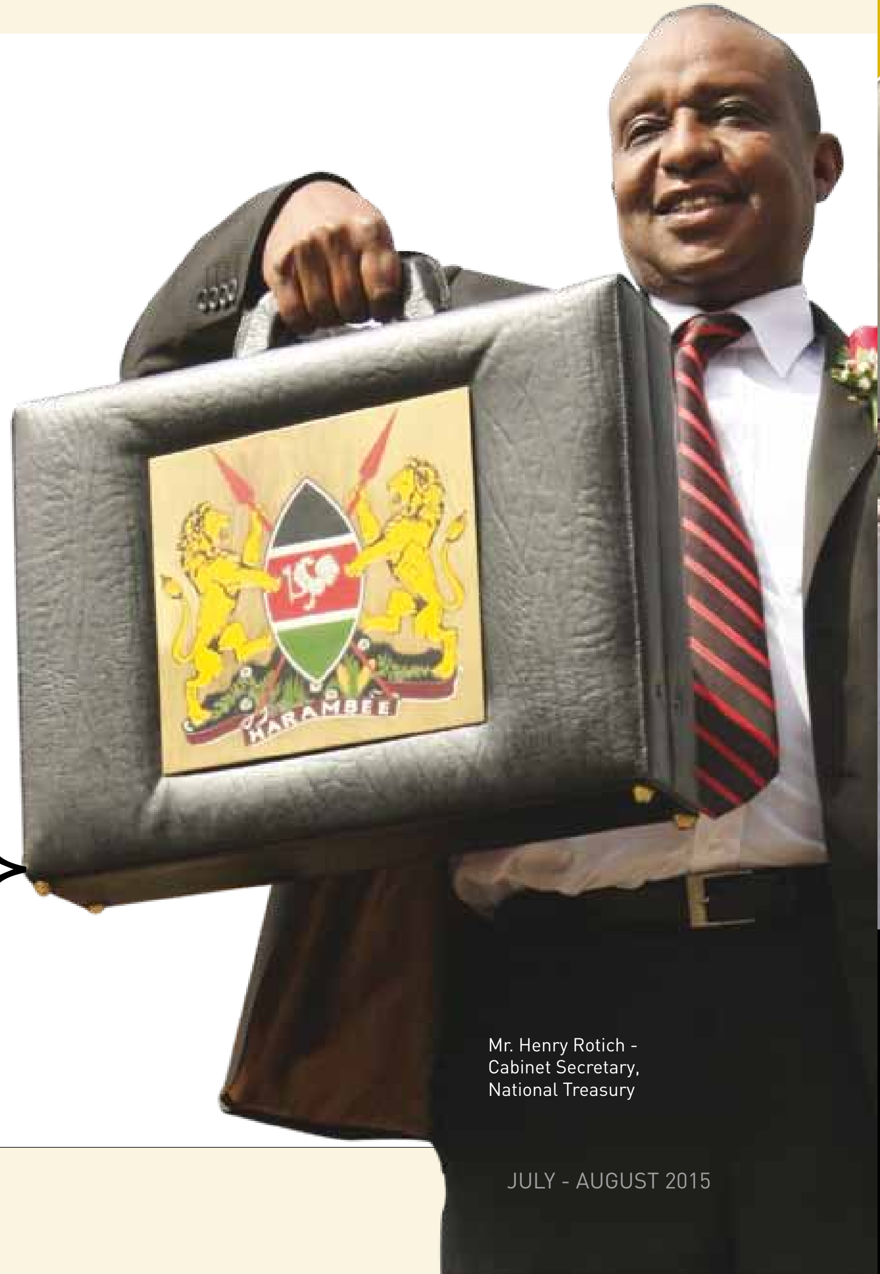
	Actual 2012/13 KShsbn	Revised 2013/14 KShsbn	Budget 2014/15 KShsbn	Actual 2014/15 KShsbn	Budget 2015/16 KShsbn	Increase over preceding year: Revised to actual 2013/14	Budget to revised 2014/15	Budget to budget 2015/16	Budget to actual 2015/16
Income tax from individuals (PAYE)	199.8	257.4	299.8	284.5	330.2	28.81%	16.45%	10.15%	16.06%
Income tax from businesses	173.0	197.2	242.1	248.2	293.0	14.01%	22.77%	21.00%	18.05%
Value added tax (VAT) net	170.2	231.0	267.1	270.1	310.3	35.72%	15.63%	16.17%	14.88%
Excise duty net	83.3	104.0	119.8	122.0	142.1	24.85%	15.19%	18.61%	16.48%
Import duty net	57.4	68.3	77.7	77.0	82.2	18.99%	13.76%	5.79%	6.75%
Import declaration & inspection fees	24.2	27.2	31.0	27.6	32.3	12.65%	13.78%	4.30%	17.03%
Railway development levy	0.0	20.1	22.9	22.9	25.7	N/A	13.78%	12.12%	12.23%
Stamp duty less refunds	8.5	10.4	11.8	13.8	15.2	21.43%	13.78%	28.85%	10.14%
Licences under Traffic & Communications Acts & interest	2.5	1.3	1.5	2.9	3.7	-45.16%	14.02%	140.73%	27.59%
Petroleum development levy	1.7	1.5	1.5	1.2	1.4	-10.75%	-3.29%	-4.70%	16.67%
Road maintenance levy	25.0	24.7	24.9	20.7	26.5	-1.11%	0.57%	6.58%	28.02%
Interest, dividend and rental income from land & buildings	8.7	16.3	20.1	8.2	13.2	87.58%	23.70%	-34.48%	60.98%
Capital gains tax	0.0	0.0	0.0	0.2	10.0	N/A	N/A	N/A	N/A
Sundry items	24.3	30.5	15.4	9.1	72.1	25.51%	-49.51%	368.18%	692.31%
Total ordinary revenue	778.6	990.1	1,135.6	1,108.4	1,357.9	27.16%	14.70%	19.57%	22.51%
Deduct: A figure necessary to reconcile two Govt numbers	-0.8	-46.6	-48.7	0.0	0.0	N/A	N/A	N/A	N/A
	777.8	943.4	1,086.9	1,108.40	1,357.9	21.30%	15.20%	24.94%	22.51%
Total grants and management fees	20.7	68.8	58.0	55.1	73.4	232.23%	-15.77%	26.58%	33.21%
Total revenue	798.5	1,012.3	1,144.9	1,163.5	1,431.3	30.83%	12.73%	25.02%	23.02%
Interest on Government debt	105.8	121.4	167.4	167.4	185.3			10.69%	10.69%
Recurrent expenditure: Ministries (12/13 and 13/14 include cap)	805.3	955.5	654.1	654.1	748.6			14.45%	14.45%
Miscellaneous items	42.3	43.0	37.6	37.6	112.9			200.27%	200.27%
Allocation to counties	20.2	210.0	226.7	226.7	258.0			13.81%	13.81%
Contingencies fund	5.0	5.0	5.0	5.0	5.0			0.00%	0.00%
Total recurrent expenditure	973.6	1329.9	1085.8	1090.8	1309.8			20.63%	20.08%
Recurrent surplus (except 12/13 and 13/14)			59.1	72.7	121.5			105.68%	67.13%
Gross capital expenditure			-476.4	-634.80	-712.4			49.54%	12.22%
Debt repayment			-115.8	-231.90	-211.7			82.82%	-8.71%
Net deficit after capital expenditure	-175.1	-317.6	-533.1	-794.0	-802.6			50.55%	1.08%
Total borrowing			368.5	629.4	681.1			84.84%	8.21%
"Others"			164.6	164.6	121.5			-26.20%	-26.18%
			533.1	794.0	802.6			50.55%	1.08%

Kenya Budget 2015/16

The big numbers in recurrent expenditure		% of recurrent expenditure
Teachers' service commission (teachers' salaries)	KShsbn 181	24.2%
State Department of Education (free primary & secondary)	KShsbn 59	7.9%
Dept of Science & Technology (universities & tertiary)	KShsbn 59	7.8%
Total spending on education	KShsbn 299	39.9%
Ministry of Defence	KShsbn 92	12.3%
The big numbers in capital expenditure		**% of capital expenditure**
State Department of Transport (KShsbn 147 standard gauge rail)	KShsbn 158	22.2%
State Department of Infrastructure (rehabilitation & new roads)	KShsbn 104	14.6%

According to this document, total Government expenditure for the fiscal year 2015/16 is KShs 2,234.0 bn: the electronic version states the total as KShs 2,209.1 bn.

A query that many people raise about Government borrowing in Kenya is whether or not this borrowing is sustainable.



Mr. Henry Rotich - Cabinet Secretary, National Treasury

GOVERNANCE

By Raymond Kiambati, Photo: Innovation vs Evolution

STRATEGIC ESSENTIALS OF INNOVATION

Strategic and organizational factors are what separate successful big-company innovators from the rest of the field. It is no secret innovation is difficult for well-established companies. By and large, they are better executors than innovators, and most succeed less through game-changing creativity than by optimizing their existing businesses. To be sure, there's no proven formula for success, particularly when it comes to innovation. If companies assimilate and apply these essentials—in their own way, in accordance with their particular context, capabilities, organizational culture, and appetite for risk—they will improve the likelihood that they, too, can rekindle the lost spark of innovation. In the digital age, the pace of change has gone into hyperspeed, so companies must get these strategic, creative, executional, and organizational factors right to innovate successfully.

Aspire

President John F. Kennedy's bold aspiration, in 1962, to "go to the moon in this decade" motivated a nation to unprecedented levels of innovation. A far-reaching vision can be a compelling catalyst, provided it's realistic enough to stimulate action today. But in a corporate setting, as many CEOs have discovered, even the most inspiring words often are insufficient, no matter how many times they are repeated. It helps to combine high-level aspirations with estimates of the value that innovation should generate to meet financial-growth objectives. Quantifying an "innovation target for growth," and making it an explicit part of future strategic plans, helps solidify the importance of and accountability for innovation. The target itself must be large enough to force managers to include innovation investments in their business plans. If they can make their numbers using other, less risky tactics, our experience suggests that they (quite rationally) will. Establishing a quantitative innovation aspiration is not enough, however. The target value needs to be apportioned to relevant business "owners" and cascaded down to their organizations in the form of performance targets and timelines. Anything less risks encouraging inaction or the belief that innovation is someone else's job.

Choose

Fresh, creative insights are invaluable, but in our experience many companies run into difficulty less from a scarcity of new ideas than from the struggle to determine which ideas to support and scale. At bigger companies, this can be particularly problematic during market discontinuities, when supporting the next wave of growth may seem too risky, at least until competitive dynamics force painful changes. Innovation is inherently risky, to be sure, and getting the most from a portfolio of innovation initiatives is more about managing risk than eliminating it. Since no one knows exactly where valuable innovations will emerge, and searching everywhere is impractical, executives must create some boundary conditions for the opportunity spaces they want to explore. The process of identifying and bounding these spaces can run the gamut from intuitive visions of the future to carefully scrutinized strategic analyses. Thoughtfully prioritizing these spaces also allows companies to assess whether they have enough investment behind their most valuable opportunities. During this process, companies should set in motion more projects than they will ultimately be able to finance, which makes it easier to kill those that prove less promising.

Discover

Innovation also requires actionable and differentiated insights—the kind that excite customers and bring new categories and markets into being. How do companies develop them? Genius is always an appealing approach, if you have or can get it. Fortunately, innovation yields to other approaches besides exceptional creativity. The rest of us can look for insights by methodically and systematically scrutinizing three areas: a valuable problem to solve, a technology that enables a solution, and a business model that generates money from it. You could argue that nearly every successful innovation occurs at the intersection of these three elements. Companies that effectively collect, synthesize, and "collide" them stand the highest probability of success. The insight-discovery process, which extends beyond a company's boundaries to include insight-generating partnerships, is the lifeblood of innovation.

Evolve

Business-model innovations - which change the economics of the value chain, diversify profit streams, and/or modify delivery models—have always been a vital part of a strong innovation portfolio. As smartphones and mobile apps threaten to upend oldline industries, business-model innovation has become all the more urgent: established companies must reinvent their businesses before technology-driven upstarts do. Why, then, do most innovation systems so squarely emphasize new products? The reason, of course, is that most big companies are reluctant to risk tampering with their core business model until it's visibly under threat. At that point, they can only hope it's not too late. Leading companies combat this troubling tendency in a number of ways. They up their game in market intelligence, the better to separate signal from noise. They establish funding vehicles for new businesses that don't fit into the current structure. They constantly reevaluate their position in the value chain, carefully considering business models that might deliver value to priority groups of new customers. They sponsor pilot projects and experiments away from the core business to help combat narrow conceptions of what they are and do. And they stress-test newly emerging value propositions and operating models against countermoves by competitors.

Accelerate

Virulent antibodies undermine innovation at many large companies. Cautious governance processes make it easy for

continued next page

Some ideas, such as luxury goods and many smartphone apps, are destined for niche markets. Others, like social networks, work at global scale. Explicitly considering the appropriate magnitude and reach of a given idea is important to ensuring that the right resources and risks are involved in pursuing it. The seemingly safer option of scaling up over time can be a death sentence.

<< stifling bureaucracies in marketing, legal, IT, and other functions to find reasons to halt or slow approvals. Too often, companies simply get in the way of their own attempts to innovate. A surprising number of impressive innovations from companies were actually the fruit of their mavericks, who succeeded in bypassing their early-approval processes. Clearly, there's a balance to be maintained: bureaucracy must be held in check, yet the rush to market should not undermine the cross-functional collaboration, continuous learning cycles, and clear decision pathways that help enable innovation. Are managers with the right knowledge, skills, and experience making the crucial decisions in a timely manner, so that innovation continually moves through an organization in a way that creates and maintains competitive advantage, without exposing a company to unnecessary risk? Companies also thrive by testing their promising ideas with customers early in the process, before internal forces impose modifications that blur the original value proposition. To end up with the innovation initially envisioned, it's necessary to knock down the barriers that stand between a great idea and the end user. Companies need a well-connected manager to take charge of a project and be responsible for the budget, time to market, and key specifications—a person who can say yes rather than no. In addition, the project team needs to be cross-functional in reality, not just on paper. This means locating its members in a single place and ensuring that they give the project a significant amount of their time (at least half) to support a culture that puts the innovation project's success above the success of each function. Cross-functional collaboration can help ensure end-user involvement throughout the development process. At many companies, marketing's role is to champion the interests of end users as development teams evolve products and to help ensure that the final result is what everyone first envisioned. But this responsibility is honored more often in the breach than in the observance. Other companies, meanwhile, rationalize that consumers don't necessarily know what they want until it becomes available. This may be true, but customers can certainly say what they don't like. And the more quickly and frequently a project team gets—and uses—feedback, the more quickly it gets a great end result.

Scale

Some ideas, such as luxury goods and many smartphone apps, are destined for niche markets. Others, like social networks, work at global scale. Explicitly considering the appropriate magnitude and reach of a given idea is important to ensuring that the right resources and risks are involved in pursuing it. The seemingly safer option of scaling up over time can be a death sentence. Resources and capabilities must be marshaled to make sure a new product or service can be delivered quickly at the desired volume and quality. Manufacturing facilities, suppliers, distributors, and others must be prepared to execute a rapid and full rollout.

Extend

In the space of only a few years, companies in nearly every sector have conceded that innovation requires external collaborators. Flows of talent and knowledge increasingly transcend company and geographic boundaries. Successful innovators achieve significant multiples for every dollar invested in innovation by accessing the skills and talents of others. In this way, they speed up innovation and uncover new ways to create value for their customers and ecosystem partners. Smart collaboration with external partners, though, goes beyond merely sourcing new ideas and insights; it can involve sharing costs and finding faster routes to market. Famously, the components of Apple's first iPod were developed almost entirely outside the company; by efficiently managing these external partnerships, Apple was able to move from initial concept to marketable product in only nine months. High-performing innovators work hard to develop the ecosystems that help deliver these benefits. Indeed, they strive to become partners of choice, increasing the likelihood that the best ideas and people will come their way. That requires a systematic approach. First, these companies find out which partners they are already working with; surprisingly few companies know this. Then they decide which networks—say, four or five of them—they ideally need to support their innovation strategies. This step helps them to narrow and focus their collaboration efforts and to manage the flow of possibilities from outside the company. Strong innovators also regularly review their networks, extending and pruning them as appropriate and using sophisticated incentives and contractual structures to motivate high-performing business partners. Becoming a true partner of choice is, among other things, about clarifying what a partnership can offer the junior member: brand, reach, or access, perhaps. It is also about behavior. Partners of choice are fair and transparent in their dealings. Moreover, companies that make the most of external networks have a good idea of what's most useful at which stages of the innovation process. In general, they cast a relatively wide net in the early going. But as they come closer to commercializing a new product or service, they become narrower and more specific in their sourcing, since by then the new offering's design is relatively set.

Mobilize

How do leading companies stimulate, encourage, support, and reward innovative behavior and thinking among the right groups of people? The best companies find ways to embed innovation into the fibers of their culture, from the core to the periphery. They start back where we began: with aspirations that forge tight connections among innovation, strategy, and performance. When a company sets financial targets for innovation and defines market spaces, minds become far more focused. As those aspirations come to life through individual projects across the company, innovation leaders clarify responsibilities using the appropriate incentives and rewards.

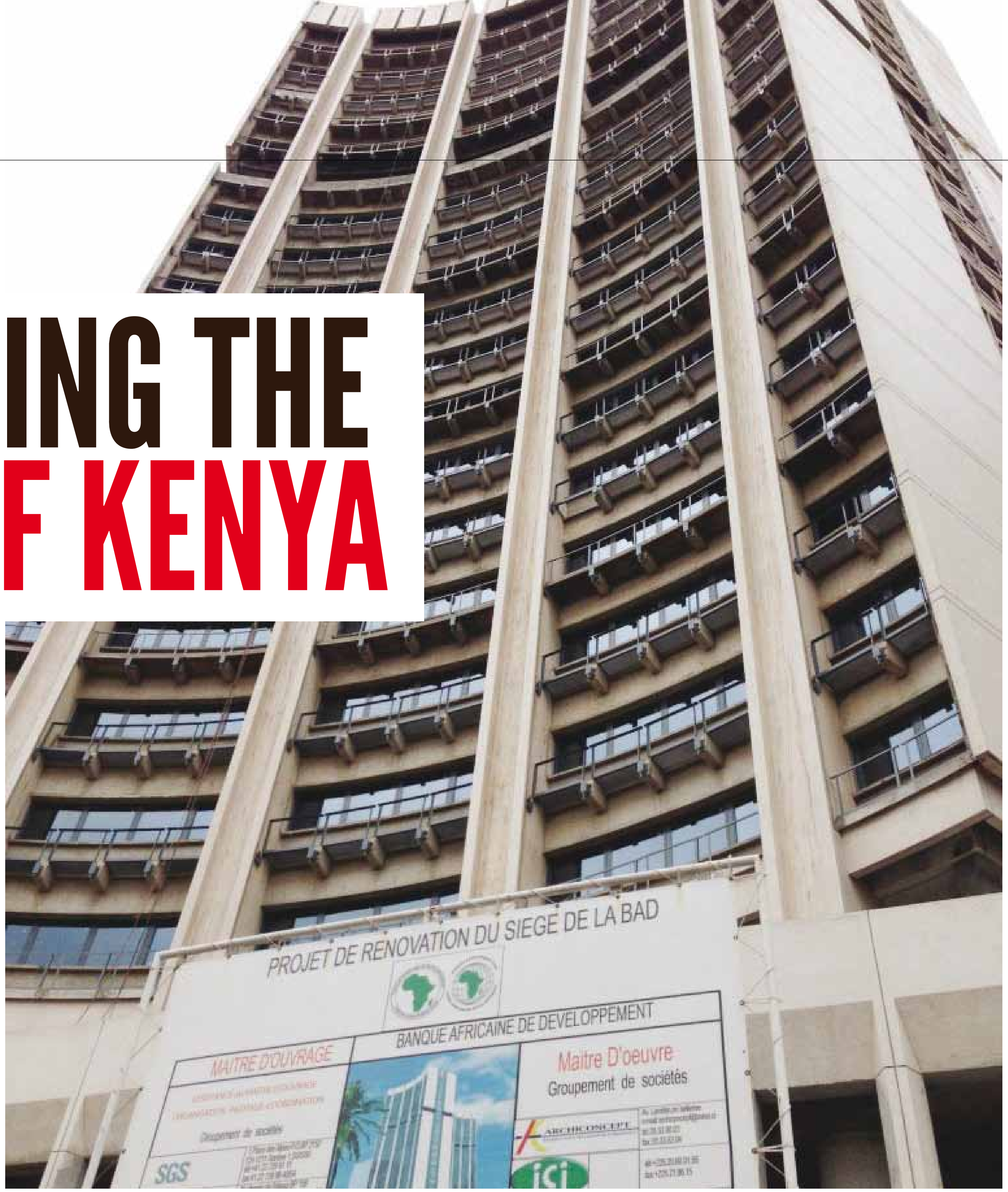
Organizational changes may be necessary, not because structural silver bullets exist. They have been looked for and don't think they do—but rather to promote collaboration, learning, and experimentation. Companies must help people to share ideas and knowledge freely, perhaps by locating teams working on different types of innovation in the same place, reviewing the structure of project teams to make sure they always have new blood, ensuring that lessons learned from success and failure are captured and assimilated, and recognizing innovation efforts even when they fall short of success. Internal collaboration and experimentation can take years to establish, particularly in large, mature companies with strong cultures and ways of working that, in other respects, may have served them well. Some companies set up "innovation garages" where small groups can work on important projects unconstrained by the normal working environment while building new ways of working that can be scaled up and absorbed into the larger organization. Big companies do not easily reinvent themselves as leading innovators. Too many fixed routines and cultural factors can get in the way. For those that do make the attempt, innovation excellence is often built in a multiyear effort that touches most, if not all, parts of the organization. Our experience and research suggest that any company looking to make this journey will maximize its probability of success by closely studying and appropriately assimilating the leading practices of high-performing innovators. Taken together, these form an essential operating system for innovation within a company's organizational structure and culture.

A far-reaching vision can be a compelling catalyst, provided it's realistic enough to stimulate action today. But in a corporate setting, as many CEOs have discovered, even the most inspiring words often are insufficient, no matter how many times they are repeated. It helps to combine high-level aspirations with estimates of the value that innovation should generate to meet financial-growth objectives.

ECONOMY

By Ms Awinja Wameyo BComm, MBA, CPA

CHANGING THE FACE OF KENYA



Africa has seen an "economic resurgence" over the past decade, but in its emerging landscape there still remain severe and complex challenges in an otherwise rich continent. The Africa Competitive Report 2015 indicates that although "growth rates in Africa have averaged over 5% over the past 15 years one in two Africans continue to live in extreme poverty and income inequality remains among the highest in the world." With so much at stake, the challenge for experts is to demonstrate clear linkages between Public Financial Management and Accountability issues with Development Outcomes. Public Financial Management & Accountability must be understood as a means to achieving Sustainable Development Outcomes. Not only does Public Financial Accountability play an impetus in spurring Economic Development but worse still, lack thereof means that development outcomes and inclusive growth cannot be achieved.

For a long time Public Financial Management and Accountability issues have been limited to the form rather than the substance. However, with increasing understanding that causal relationships do indeed exist between good Public Financial Management and Development Results, pundits argue that without adequate PFM&A frameworks and institutions, countries cannot have sustainable results both at a macro and micro level. In its Ten year strategy the African Development Bank puts Governance and Accountability as one of its five operational priorities and indicates that *"Economic growth can only be built on the firmest foundations of just, transparent and efficient governance and institutions administered by the capable state"*. It behooves accountants to build up on this momentum and catalyze the political will to utilize the Public Financial Management and Accountability Agenda to impact development results. The Kenya development debate should focus on both the conceptual and the practical level where demand for adequate PFM & A frameworks are mainstreamed in all country dialogue and assistance to ensure adequate food security, schools and education for posterity, sustainable infrastructure, wealth creation, inclusive growth, economic & political stability and help the country exceed ambitious Sustainable Development Goals.

It goes without saying that strong oversight institutions - supreme audit institutions, state internal audit, parliamentary accounts committees, the executive, media, professional organizations and civil society organizations - are key to building sustainable economic growth and ensuring effective service delivery. Each of these institutions must play their mutually exclusive roles in ensuring transparency and accountability of public finances and public expenditure management if sustainable development outcomes are to be achieved.

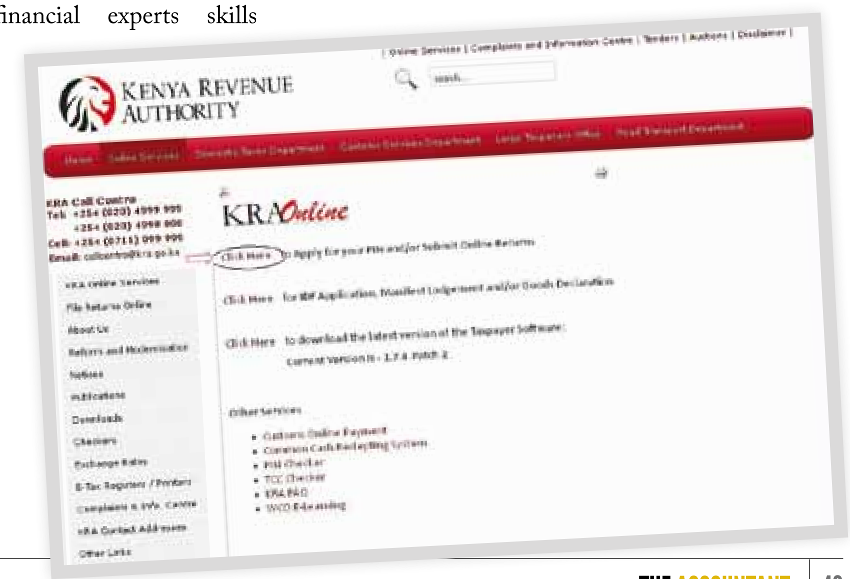
The question then is how professional organizations, like ICPAK and others can harness their convening power to affect the discussions around the way FDI, ODA and Budget resources are delivered. This will not only to ensure that funds are used for purposes intended but also enable countries build and make use of self-sustaining institutions and frameworks that ensure inbuilt checks and balances that encourage accountability not just for the form but also the substance.

Given the linkages between literacy levels and the proper functioning of oversight institutions, Professional Associations must pay attention to the contextual factors of the populace in Kenya where a large majority may not have the requisite financial literacy for the understanding and utilization of any financial information. As Kenya increasingly moves towards automating tax collections through the I-Tax, is it therefore not obvious that basic accounting should be streamlined into the school curriculum from very early on in the academic cycle? The broader citizenry can only provide effective checks and balances both in requiring better service delivery, effective use of resources and good government by understanding and making use of the financial information that is provided by governments, international financial institutions and development partners. How can these checks and balances be achieved in Africa when general literacy rates and particularly financial literacy rates are so low? In its vision to enhance Public Financial Accountability professional organizations must have the wherewithal to influence the agenda in the Education Sector. In so doing, assisting in the skills development of a cohort of citizens who are not only experts in their fields but also possess the analytical skills to hold their county and national government to account.

A significant amount has been written on developing infrastructure as a mechanism for changing the face of Kenya. Not much is debated on the requisite financial capabilities for setting up and delivering successful infrastructure projects. Whereas other skill sets are equally important, it is necessary to understand the extent to which professional associations like ICPAK, need to position themselves to ensure that, as partners, they are both equipped to assist the country set up and deliver on these mega Infrastructure projects. This would require equipping financial experts skills beyond preparing financial books of account but also the ability to analyse financing arrangements and also undertake value for money audits. With increased funding to the counties, are county governments well placed to manage the resources availed to them?

The global financial and sovereign debt crises have vividly highlighted the damaging consequences of weak public financial management for any economy. Poor financial management by governments impacts on public services, living standards and life chances. It also adversely affects investor confidence, economic performance, and trust in government. At a time when Kenya is making crucial decisions of national economic importance, it would mean that Government decisions must be based on complete, accurate, real time and futuristic financial information. After a decade or more of Public Financial Management (PFM) reform in Kenya, it may be opportune to step back and discuss how well the current PFM systems now facilitate effective public financial management and good accountability frameworks. Do the measurable indicators demonstrate linkages arising from these reforms with improved accountability and better service delivery?

Without adequate public management systems and accountability mechanisms – from budget and planning to oversight - that allow due process and efficient utilization of funds, the dual goals of wealth creation and poverty alleviation will be impossible to achieve.



By CPA Kimathi K Muchiri, Photo: Tourist maker

GREAT TO RUINS

Is organization decline self inflicted?

By taking calculated risks ordinary organizations have time and again transformed themselves into blue chip companies. Stories of companies with meteoric rise abound, and it may seem like they've been fated from the very beginning. In Robert Frost metaphorical poem; "two roads diverged in a wood, and I— I took the less traveled, and that has made the difference" the Solomonic wisdom that propel ordinary organizations into top notch ones is captured. For many, however, growth hasn't always been straight. These companies just made some smart decisions that led to incredible growth along the way. But whichever trajectory that charted their way to the top, these companies have basked at the summit with their peers. And some are still basking at the top, the staying power harking them there. According to an article by Merill Lynch, of the Bank of America fast growing companies have largely gotten there through innovation, acquisition, superior execution or a set of combination of these three.

Almost half of the 25 companies that passed the rigorous tests for inclusion in Tom Peters and Robert Waterman's book, "In Search of Excellence," today no longer exist, are either in bankruptcy or have performed poorly. What has happened to the companies more than 30 years since the book was published? Of the original Standard and Poor's (S&P) 500 list created in 1957, just 74 companies (15%), are on that list today according to a research by Professor Gary Biddle of the University of Hong Kong. Of those 74, only 12 have outperformed the S&P index average. Gary Cokins in his article on Strategy Management opinionates that 'when an organization is enjoying success, it breeds adversity to taking wise and calculated risks. They are too confident that what has worked in the past will continue to work in the future. But each new day requires making strategic adjustments to anticipate continuously changing customer needs and counter-tactics by competitors'.

In their book, 'In Search of Excellence' Tom Peters and Robert H Waterman aptly captured the eight common themes that are responsible for the success of the chosen corporations. The eight themes revolved around the customer, the people and the action. The excellent companies were, above all, brilliant on the basics. "Tools didn't substitute for thinking rather, these companies worked hard to keep things simple in a complex world. They persisted and insisted on top quality, pleased their customers, listened to their employees and encouraged innovation". Similarly, most of the companies at the summit think first of the customer, then of the firm and lastly about themselves as individuals. Through a customer driven approach amplified by an exemplary organization culture, they are able to chart new courses where there is no traffic or stay ahead of the pack. Their leaders are able to communicate across the board by learning to downsize their egos and thus they lead from the front. Such leaders need not augment that they practice an open door management system; it's there for all and sundry to see. By talking to their employees they are able to pick a mass of ideas even from the most unlikely sources.

In 'Why Smart Executives Fail: And What You Can Learn from Their Mistakes', Sydney Finkelstein, a distinguished professor at Dartmouth's Tuck School of Business, carried out a six-year study of leadership failure. After hundreds of interviews with insiders at top companies that got into major trouble, Finkelstein strived to figure out the common causes behind these failures. This he explains in his book "the seven habits of spectacularly unsuccessful people" that drive smart managers to make catastrophic mistakes. While each company profiled tended to fail in its own way, there were common traits among top executives". Based on his research, he observed that the causes of failure are not because executives are unintelligent and neither are they due to unforeseeable events. The explanation revolves around the attitude of executives. This includes a breakdown in their reasoning, their strategic thinking, and their creation of a negative culture for metrics and deep analysis. The line of least expectation sometimes catches the Executives napping. Nowhere is this best amplified than in the military world. The allied invasion came at Normandy, a place whose tide and rocky shore the Germans felt would be an unlikely choice for a landing of any scale. Hannibal came over the Alps, a route deemed impossible to scale. Hitler came around the Maginot line and sent his divisions through the Ardennes terrain which the French generals thought was impossible to transverse with tanks. Executives sometimes wrongly assume that competitors will not make moves deemed crazy; but they prod to do them to great success and leave them in utter amazement. Organizations that have failed often knew what was happening but chose not to do much about it. Many organizations ignore the fact that the choice not to act is also a decision.

According to a research by Maurer, a change management expert and author, almost 70% of all changes made within organizations fail. Maurer notes three key reasons why changes fail: the stakeholders don't understand it; they don't like it; or they don't like you. Establishing that trust by leaders needs to begin with connecting on an elemental level; how about a genuine good morning as you get to the corner office? In a time of cynicism towards authority and organizations, leaders have to find ways to connect to their workers in ways that personalizes the challenge. Even more importantly, leaders have to follow through. "Leaders often underestimate the power of symbolism. People look at their leaders not only on what they have to say, but what they do and how they carry themselves. The biggest misconception that's out there is that a good idea will win at the end of the day," says Maurer. "The phrase, 'If you build it, they will come,' is false. It's fiction. That's not the way the world works. Somehow, we get it into our heads that with a good idea, we just have to explain it and we'll receive applause and everything will come together. But there's a whole emotional, human side to the issue that too often we give short shrift."

As noted above there are common denominators prevalent in companies that have thrived at the apex of success and similarly, common trends are visible in companies that no longer exist, are in bankruptcy or have performed poorly. How do the mighty fall? Can decline be detected early and avoided? How far can a company fall before the path towards doom becomes inevitable and unshakable? How can companies reverse course? in his four year plus research based book 'How the Mighty Fall: And Why Some Companies Never Give In', Jim Collins; uncovered five step-wise stages of decline: Hubris Born of Success, Undisciplined Pursuit of More, Denial of Risk and Peril, Grasping for Salvation and Capitulation to Irrelevance or Death. In the book he notes that stage 1 kicks in when people become arrogant, regarding success virtually as an entitlement, and they lose sight of the true underlying factors that created success in the first place. The Companies in Stage 2 stray from the disciplined creativity that led them to greatness in the first place, making undisciplined leaps into areas where they cannot be great or are growing faster than they can handle with excellence or line extension or any set of combination. As companies move into Stage 3, internal warning signs begin to mount, yet external results remain strong enough to "explain away" disturbing data or to suggest that the difficulties are "temporary" or "cyclic" or "not that bad," and "nothing is fundamentally wrong." The cumulative exposures gone bad of Stage 3 assert themselves, throwing the enterprise into a sharp decline visible to all. The longer a company remains in Stage 4, repeatedly grasping for silver bullets, the more likely it will spiral downward. In Stage 5, accumulated setbacks and expensive false starts erode financial strength and individual spirit to such an extent that leaders abandon all hope of building a great future. It's at this time that the top management starts taking flight. In some cases the company's leader just sells out; in other cases the institution atrophies into utter insignificance; and in the most extreme of cases the enterprise simply dies outright.

Decline, is largely self-inflicted, and the path to recovery lies largely within our own hands. By understanding decline, leaders can substantially reduce their chances of falling all the way to the bottom. Great nations can decline and recover. Great social institutions can fall and recover. Great companies can stumble badly, but still rise. And great individuals can fall and recover. As long as you never get entirely knocked out of the game, there remains hope.

By CPA S.T. Wainaina, stiras@yahoo.com, Photo: Pravoslavie

GOVERNMENT BAILOUTS ENTRENCH IMPUNITY AND THEFT

"Troubled Kenya Airways gets sh.4.2billion from Treasury", was a headline news in the Business Daily. The bailout plan, which is contained in the supplementary budget, was tabled in Parliament. The airline continues to battle financial troubles arising from heavy load of debt in a tough operating environment. This coming in the heels of another equally distressing development of injecting another sh.1 billion of tax payers' money to bail out another publicly quoted ailing company, Mumias Sugar. The Kenya Meat Commission has sucked billions of public money since the time of the retired president Kibaki and it is still on its knees. Sugar companies now lined up for privatizations; SONY sugar, Muhoroni, Nzoia and Miwani are also saddled in billions of taxpayers' money arising from past government interventions. Pan Paper mills, another 'sick' corporate has been left dormant after getting its fair share of taxpayers millions! The celebrated case of successful bailout, the Uchumi supermarket appears not to have recovered fully if the recent cash flow challenges and delayed suppliers' payment is anything to go by.

> **What has always baffled me is why Kenyans who attended same universities and colleges behave so differently when they join either private or public sector with the former going ahead to shine by delivering optimum shareholder values year in year out where they colleagues in the public sector just 'burn' taxpayers' money with dismal service delivery!**

At independence, Kenya made it very clear that her approach to economic development was through free enterprise or capitalism, where the laws of supply and demand determine those who thrive or perish. Taxpayers who work so hard to earn a living and pay taxes to enable the government offer services to her citizens have a right to feel cheated and heartbroken to see their taxes used to bail out public quoted companies and other parastatals arising from pure mismanagement with the culprits never called to account.

What are the commonest causes of failure in these companies? Forget excuses like the ones being bandied around by the Kenya Airways, for example, Ebola outbreaks, slump in tourism, fuel prices, terrorism, etc. The obvious common sense questions are; why is the Ethiopian Airlines still soaring up in success? Why are sugar companies in Mauritius, Malawi and Sudan so efficient and profitable? Why are the leading Chinese transnational construction companies so successful and yet they are government controlled?

Real causes of failure of the said Kenyan companies include, inter alia:

1. Gross mismanagement
2. Political interference e.g. board and CEO/MD's appointments,
3. Bureaucratic decision making by government as a shareholder-e.g. the delayed approval of rights issues by Uchumi supermarket and fundraising by the Consolidated bank
4. Resistance to change and inflexibility in responding to market dynamics
5. Poor performance management, i.e. failure to align rewards or sanctions to performance.

What has always baffled me is why Kenyans who attended same universities and colleges behave so differently when they join either private or public sector with the former going ahead to shine by delivering optimum shareholder values year in year out where they colleagues in the public sector just 'burn' taxpayers' money with dismal service delivery! What could be the real motivation? Unless we honestly unravel this cause, we may continue with the traditional habits of musical chairs and throwing good money after bad money-not a very smart way of investing taxpayers' money.

For a long time, the public sector was the employer of last resort. University and college graduates took up positions in government and some parastatals after they failed to land their preferred dreams jobs in the private sector, whatever that means. It is open secret that in the public sector, majority of workers just put in the minimum effort to earn a salary to pay bills. Remuneration is on the basis of passage of time, a month not contribution or performance like in the private sector. More importantly, many workers know that in the public sector, nobody ever gets punished for abuse of office for self-aggrandizement; in fact, the norm is that "one should feed from where they work". One is deemed 'queer or abnormal or outright foolish' if one fails to enrich him/self. The higher one rises the corporate ladder, the more lucrative are the opportunities for enrichment, through abuse of procurement process, recruitment and outright appropriation of public assets.

Unfortunately, the government has been an accomplice in this economic crime of plundering public resources by officers bestowed with the stewardship responsibilities by always willing to come to the rescue of the corporations brought to the knees. More often than not the culprits are promoted to even more 'juicy' or 'wet' corporations or ministries to continue with the plunder. At worst, such persons may be relieved off their duties to go and enjoy their ill-gotten wealth as 'self-made millionaires' or 'private developers' or elected representatives of the people! Is it a wonder that some of the richest fellows now in the private sector at one time or the other worked in the public sector where they left a trail of ailing organizations/ departments? We have countless examples of these. What does this teach the young generation? The obvious lesson is that in the public sector or parastatals, one can only get away with 'financial murder', that public offices are for self-aggrandizement or self-service rather than public service.

What should we do to put a stop of this impunity in plundering public resources? Some suggestions:

a) Those appointed as stewards of public entities should be individually held to account for their actions. If they engage in plunder, they should be sued and if found culpable be made to make good all the losses including the opportunity cost to the public.

b) The government should immediately desist from interfering with the market forces. We are a capitalist country and the government has no business gobbling our taxes to salvage 'sick' companies which cannot fight it out in the market space. There is nothing 'strategic' about a sugar company, a supermarket or a meat processor. Taxpayers' money would deliver better value for money if used to improve the quality of education and health care.

c) Meritocracy should never be sacrificed at the altar of some other nebulous factors like 'equality and equity'. There are many successful big private sector companies that live the core value of diversity even across borders without sacrificing merit. We must stop living this lie.

To conclude, the government as a shareholder should stop using our scarce tax revenues to salvage corporations that have been plundered by boards and management. The culprits must be brought to book and forced to indemnify the public. Corporations that cannot stand the 'heat' of the open market economy should be allowed to die the natural death. Employees of such companies have no one to blame but themselves. Actually, if the government does not desist from using taxpayers' money to salvage such companies, I foresee a situation where owners of private companies will sue for similar support, citing discrimination!

By CPA Liz Kerretts Matimu, liz.matimu@kkcoeastafrica.com, Photo: KPMG Africa

MANAGING A SUCCESSFUL FAMILY BUSINESS

I joined KKCO East Africa (formerly Kimani Kerretts & Co.) in September 2012 after working for 10 years in different managerial roles at CfCStanbic Bank. I was privileged to join the firm at the same time with two other external partners, my father being one of the senior founding Partners. It has been a very fulfilling and rewarding 3 years working with the different partners including my dad and we look forward to scaling new heights in Africa, providing unique solutions to our target markets while living our values. In my capacity as Partner responsible for Consulting, I have had the privilege of working with several family owned business (FOB)clients. It is surprising to note that even the medium to large clients do not have clear governance structures especially when it comes to the second generation children joining the firms. In Kenya currently, we have several companies which were started by the founders and now have their children joining the organization to drive the business.In many cases one will note that the second generation children join the organization and are not provided with clear career growth and structures and many times are left feeling disillusioned.

Some of the major challenges facing FOB in the world including Kenya as stated by a study taken by International Finance Corporation – IFC- 2009 on the Practical Guide to Corporate Governance – Experiences from Latin American Companies Cycle, which are in the early stages of business as the founders still run the organizations include the following:

- The company and family relations are not clearly distinguished especially with regards to financial resources and accounts. The company and the family assets are not legally separated.
- Existing governance related policies are informal leading to reliance on key people rather than on structures and processes. This leads to uncertainty on the part of external investors and non-family employee.
- Internal controls, internal audit and risk management are generally weak as the businesses are managed by the founders and their children; hence the controls are tailormade to suit their needs. This is especially noted as the business grows and becomes more complex.

FOB contributes to 80% of the business run in Kenya and plays a major role driving the economy of Kenya. There have been many studies including the study ran by Credit Suisse Family Index 2007, that showed that family ran businesses performed better than other structured business. Over the long term period, family run businesses achieve superior returns and higher profitability due to the following reasons:

- Long term strategic focus of the controlling shareholders and management, instead of operational focus on trying to surpass targets.
- Better alignment of management and shareholders' interests.
- Focus on core activities.
- Commitment to business leadership

Working with these FOB over the last couple of years has given me some insights into simple actions which, if applied, can move the performance from good to great and deliver exceptional results and profits Here are the 5 simple formula you can apply as a family run business:

1. Ensure good corporate governance structures are in place. Good corporate governance structures include:

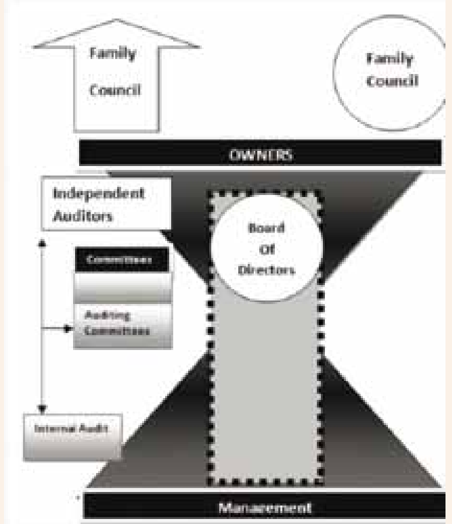
a. Having a family constitution – this states the family vision, mission, values and policies regulating family members relationships with the business.

b. Having family institutions – which can have different forms and purposes for example family assembly, family council etc

c. Separate functions of ownership, control and management dependent on the different stages of the business.

d. Independent non-executive directors

Below is a diagrammatic presentation of a family owned business with good corporate governance.



2. Develop a 3 to 5 years strategic plan. Strategic plan provides the owners clear direction that the organization should be taking over the next 5years. This sets the pace for the organizational culture, values, vision and mission. The strategic plan should then be broken down into the management's individual performance and reviewed at least twice a year to ensure the plan is being executed and the desired results achieved. The strategic plan provides guidance to the family owners to align their individual expectations and visions and have one common goal.

3. Set up clear policies that include operations and financial policies, human resources policy and family employment policies. The policies create professionalism within the organization and separates functions of ownership, control and management. The policies should be shared with all employees including the family members, implemented and monitored via systems reviews or internal audits.

4. Develop the skills and knowledge of heirs so that they can become responsible "second-generation" owners as they can assume various roles within the business including management, roles directorship roles and even employees roles. I have observed that families' owners who mentor their children at an early age guiding their educational and professional qualifications and experience succeed more in taking their family owned business from good to great. The work experience can be gained by either taking up external work from other established firms such as multinationals or by working within the family businesses with a clear career path so as to build experience. Building experience creates confidence both for the heir of the business and for the employee's especially senior employees working with family business.

5. Have a succession plan – Succession planning can be very sensitive and emotional, it is important to come up with a clear succession plan. Some of the activities that can provide guidance in succession planning include:

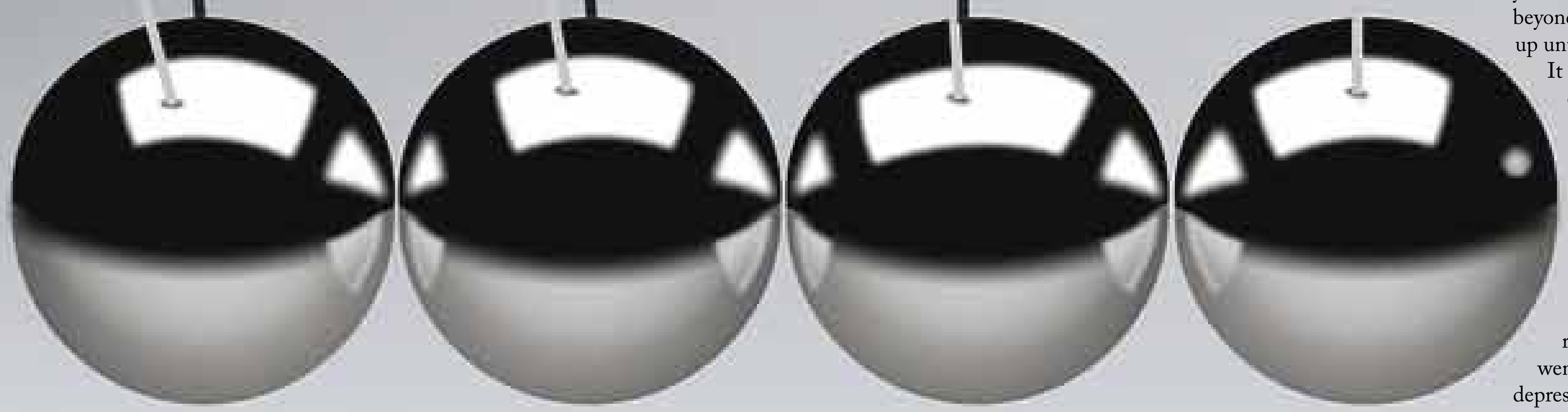
- Understanding skills and competencies of each family member who would want to work for the family owned business so as to prepare future generations of owners.
- Intentional coaching, mentoring and training of each of the family members.
- The management teams also need clear succession plans that include coming up with retirement plans and retirement preparation plans that could include policies for potential continued relationships between the company and retired executives. These could include appointments to boards and carrying out consultancies.
- Procedures of selecting the CEO and senior leadership positions.
- Planned timing for the founders to hand-over leadership to the second generation.

I encourage family owned business owners to apply these practices and share their experiences on our website www.kkcoeastafrica.com. Let me know your thoughts, experiences and challenges either as an owner, business heir or even employee of family owned business via email on liz.matimu@kkcoeastafrica.com or via LinkedIn or twitter @lizmatimu.

CPA Liz Kerretts Matimu is Partner, Consulting, KKCO East Africa

By Joseph Nyanchama, info@josephnyanchama.com, Photo Gallery Hip

USING THE PRINCIPLE OF THE LAW OF CAUSE AND EFFECT TO TRANSFORM SOCIETY



I will never forget the day I diverted from the highway and followed a stranger who was driving ahead of me up to his house. In fact I remember everything about the day so clearly it seems like only yesterday.

It was a beautiful sun-drenched Sunday afternoon along one of the highways leading into the City of Nairobi. As I was driving I was caught in a traffic jam. If you live in Nairobi you understand what I mean. Some drivers who were both behind and ahead of me went ballistic, honking their horns, screaming and slamming car doors. Nothing seemed to change and we remained stuck in the jam for an hour. By this time I was getting impatient. Since it was afternoon, the temperature was already high and it was quite hot due to the scorching uncovered sun. Droplets of perspiration fell from my brow and into my mouth and I felt quite uncomfortable inside the car.

Suddenly the driver ahead of me turned his car to a diversion on his left hand side. Immediately a feeling came to me that probably the driver had remembered an alternative route (shortcut) leading to the City. Out of these thoughts I turned my car to follow him. He turned the first corner and I also turned. I followed him for some time until he stopped outside a gate and hooted and I was just behind him. I realized we had reached the end of the road and in fact the gate where he stopped was the gate of his house.

From this episode, I should now face reality and grapple with the internal need to find correct answers about the experience I went through and infer practical application. In fact standing in the heat of the sun behind a stranger's car and gate, I was beginning a journey of discovering how better and beneficial it was to follow.

What I went through made me experience the law of "cause and effect" first hand. This law is simple yet very powerful.

If you want to know about water don't ask a fish". That is what the brilliant social critic Marshall McLuhan used to say when his views were challenged by an industry "expert". Experience had taught him that when people get too close to something, they can't step back and take honest look at it.

It says that there is a specific effect for every cause. For every action there is a reaction. Without a reaction there is no motion and without a motion there cannot be a change of position. In other words the law of "cause and effect" says that if you do what other successful countries or people do, you will eventually get the results that other successful countries or people get. If you learn the success secrets of self-fulfilled people and apply them in your life, you will experience results and rewards far beyond anything you have accomplished up until now.

It is a basic science law that, every object remains at rest until a force is applied to it. So also, change of position calls for the application of relevant forces. If Kenya or Africa has to recover economically for example, she has to follow great nations that have become great by following a certain recovery process. History records that the nation of America went through a great time of economic depression, yet today the world's economy is determined by the value of the American Dollar. China has become a nation to watch today, because it is now gradually taking over economically after a process of recovery. It is taking over not because of its population (it has always been highly populated) but because there is an economic re-awakening following certain great economic and foreign policies. She has diagnosed her economic challenge right.

Kenya and other African countries can borrow a leaf from other great nations to fight poverty. If you learn from successful economies that have successfully fought poverty, you will discover that winning the war against poverty begins with a correct diagnosis of what causes poverty. When you begin at the beginning you are too sure of the end. As long as the diagnosis is wrong, you cannot expect a patient to recover because you will administer the wrong medicine. One African writer wrote, "Poverty is not a native of Africa but a traveller that stays where it is welcome". In other words, how you welcome poverty for example is what determines how long it settles. To expel it is to follow ways those who have succeeded have used in managing it. In other words let the "law of cause and effect" take effect in this respect.

"If you want to know about water don't ask a fish". That is what the brilliant social critic Marshall McLuhan used to say when his views were challenged by an industry "expert". Experience had taught him that when people get too close to something, they can't step back and take honest look at it.

The same could be said of us and our Country-Kenya, the land of opportunity to millions of foreigners. The truth is, opportunity surrounds us like water surrounds fish. If we want to exploit such opportunities let us use the "law of cause and effect". If you want to know opportunity in Kenya and you are a Kenyan, find out how others who were surrounded by opportunities found those opportunities in their respective Countries.

I read some great idea about Sweden on how it manages waste. Sweden has an innovative Waste Management Program where it uses 96% of its garbage to generate electricity. In fact in 2012, it faced a crisis because it ran short of garbage. It had to start a process of importing from neighboring countries. This makes me wonder what potential counties have across Kenya with the volume of garbage that they generate daily. Instead, we are preoccupied with setting up disposal boards to figure out how to deal with garbage problem and in the process fight for those positions while waste materials are clogging drainage systems all over. Others like Sweden see garbage as a blessing and cannot get enough of it. Can all leaders learn from these great programs of waste management!

When you think the same thoughts and do the same things that great men and women do, you will begin to get the same results and benefits they do and by extension society will change. It is simply a matter of cause and effect. One writer wrote, "The wise learn from the mistakes of others but a fool insists on making his own." Therefore, if we want to become successful let us find out what successful people do and do those same things until we achieve the same results. Remember as I wrote earlier, I drove behind a stranger religiously, where he reached is where I reached-outside his house.

SOCIETY

By Tom Nyagare, Photo: Jack casino kings

MANIPULATING LUCK

We all, most probably have a relative or an acquaintance that always seems to be luckier than ourselves. Forever and a day things seem to happen or turn in their favour. Pitting against such people in an interview or bidding for an opportunity against them always seems to lead to disappointment following long held breath.

Looking at it differently, wouldn't life be great if the best qualified person always got the job they deserved, or the persons in most need always won the lottery or the two most suited people always got together, married and lived happily ever after? These things do sometimes happen, and if they happen we often say that they happened with Lady Luck's blessings. The point is that sometimes the obvious logical means may not yield the expected outcome. In such circumstances intervention of some less explained forces turns things to a different and usually unexpected direction. Apparently many people use the word 'luck' to mean 'good luck', but the Oxford English Dictionary among other dictionaries, define luck as 'success or failure 'largely brought by chance rather than one's own action'. In the definitions of luck, I see two parts of it: chance and polarity. Chance is the randomness of luck and polarity is the positive or negative nature of the outcome. Thus the fact that I picked a head in tossing a coin is the element of chance and the fact that the head is preferable to tail is the polarity aspect and expresses a desired outcome. Now, is it possible to manipulate luck? And if it is then which part can be manipulated if not both? Before we go too far, what have others observed about luck? Christianity and Islam believe in the will of a supreme as the primary influence of the outcome of future events and the degrees of this divine providence vary greatly from one person to another. For example, Ecclesiastes 9:11-12 states, "I have seen something else under the sun: The race is not to the swift or the battle to the strong, nor does food come to the wise or wealth to the brilliant or favour to the learned; but time and chance happen to them all". In this perspective, we attract luck by asking for it from the Absolute Giver.

The Hindu view of luck is different. In Hinduism every living being has a soul and according to Bhagwat Gita, this soul never dies. It reincarnates and takes rebirth. While living in one birth, the soul indulges in good and bad karmas (deeds). A quote in Mahabharata reads, "Man is the dispenser of his own destiny. The actions done in a former life are seen to produce fruits in this life. The soul is born again with its accumulated load of karma. By performing only virtuous actions it attains to the state of the celestials. By a combination of good and bad actions, it acquires the state of human beings. By indulgence in sensuality and similar vices, it is born among the lower animals." (Mahabharata, III. 208.22.30). This quote admits the existence of luck but attributes it to your own deeds.

Astrologers associate luck with the movements and position of Jupiter. Ab initio, Astrology is the study of cosmic influences, that is, influences associated with the motion of the Sun, Moon and planets and the position of the stars that are considered to affect all living creatures, including humans. It is also the study of the relationship of the motion and position of these heavenly bodies with physical events. Astrologers associate Jupiter with luck because they view it as a kind and benevolent planet, one that wants us to grow and flourish in a positive way. According to them, Jupiter may be judge and jury, but it's mostly an honourable helpmate, seeing to it that we're on the right path. When Astrologers say that worship of deities associated with the 9th house can help in enhancing fortune, they mean that it helps in drawing the good luck from the accumulated deeds of an individual.

Finally, according to some philosophers luck is more of a rational mind's attempt to explain cause of stochastic phenomenon whose occurrence is either desirable or undesirable. These philosophers view luck as nothing more than a convenient label for not being able to see the tiny fluttering movements of cause and effect. But still, as mathematician and an enthusiast of philosophy and psychology, the two parts of luck can be influenced.

As a mathematician, chances can be manipulated and those of us who studied statics (the mathematics of chance) can attest to this. As an enthusiast of philosophy (moral epistemology) and psychology (Sigmund's psyche structure) the subjectivity of the outcome is factored in. In other words, whether an outcome is desirable of not may just be subject to your position. For example, getting a military job is fortunate to a jobless youth but unfortunate when you have to be sent to the battle field. Same way, when you pick money you will be lucky while the person who lost the money will count himself unlucky that day.

What do business people think about luck? "Luck is not something you can mention in the presence of self-made men," American writer E. B. White once said. He added that, "That's because we run the risk of appearing shallow when we talk about luck". On the other hand, many successful people acknowledge that luck is a factor in business, including Sir Richard Branson. In his autobiography, Losing My Virginity, he says: "To be successful, you have to be out there; you have to hit the ground running. And if you have a good team around you – and more than a fair share of luck – you might make something happen." Richard Branson in his book "THE VIRGIN WAY: Everything I Know About Leadership" observes that people and businesses that are generally considered fortunate or luckier than others are usually also the ones that are prepared to take the greatest risks and, by association, are also prepared to fall flat on their faces every so often. He contends that the "play it safe for fear of failing" brigade are the ones who just never seem to get as lucky as the risk-takers. Guy Kawasaki, former marketing guru for Apple and Google, believes a good idea is 10% hard work and implementation, and 90% luck.

So, can we manipulate luck? Richard Wiseman, a professor of psychology at the University of Hertfordshire in England studied luck for more than two decades and observed that it is not "just chance". He contended that luck has a science to it. The scientific study into the nature of luck showed that most people, in large part through their attitude and behavior, make their own good and bad luck. Through his research, Wiseman found that lucky people share four characteristics which luckily can be adopted by anyone to change their fortune.

Richard noted that lucky people attempt to maximize their "Chance" Opportunities. He noted that while lucky people often attribute their good fortune to chance, they actually create and detect opportunities in various ways including networking and being open to new experiences. They talk to lots of people, attract people to them, and keep in touch with people. These actions result in a massive 'network of luck,' opening up a huge potential for chance opportunities. In contrast, unlucky people are often more introverted, preferring to spend time on their own. Unlucky people also embrace routines, sticking with the familiar and avoiding surprises.

Secondly, he observed that lucky people make decisions by following their intuition. In his research, Wiseman found that 90% trusted their intuition when it came to personal relationships, and 80% believe it played a vital role in their career choices. But they take it a step further by boosting intuitive abilities by practicing techniques such as meditation. Wiseman noted that lucky people actually use the meditation time to clear their minds of unnecessary thoughts and distractions rather than attempting to develop the intuitive feelings.

Thirdly, he observed that lucky people are optimistic about the future. Wiseman found that lucky people have higher expectations from life than unlucky people. They believe that unpredictable and uncontrollable events will consistently work out for them; unlucky people believe events outside their control will always work out against them. These expectations exert a considerable influence over people's thoughts and behaviours. They determine whether people try to achieve their goals and how long they persist in the face of failure.

Lastly, he observed that lucky people do experience misfortune, but they cope with it differently than unlucky people. For example, he says lucky people imagine how things could have been worse and compare their experience with far worse scenarios. Most importantly, lucky people also transform the event into something good by finding a positive aspect. They don't dwell on the bad luck; instead they take a long-term approach to life and assuming that something better is ahead.

Jim Collins, author of Good to Great, identified humility as one of the key traits of lucky people. Having a lucky attitude begins with humility; you need enough self-confidence to command the respect of others, but that needs to be counter-balanced with knowing that there is much you simply don't know. Jim observed that humility is the path towards earning respect while self-confidence is the path towards commanding it.

As a bonus, be resilient and persistent to be lucky. To be resilient means trying many ways to achieving your goals including studying new skills, practicing and deliberately attempting to get a deeper understanding of your areas of interest. Resilience gives you eloquence and ease in attracting social support for your goals. In the book Outliers, author Malcolm Gladwell says that it takes roughly ten thousand hours of practice to achieve mastery in a field. Gladwell contends that early access to getting 10,000 hours of practice allowed the Beatles to become the greatest band in history (thanks to playing all-night shows in Hamburg) and Bill Gates to become one of the richest dudes around (thanks to using a computer since his teen years).

The Author is the Chief Manager, Member Services, ICPAK

By Daniel Mureithi, Photo:Huffingtonpost

FEAR IS A BARRICADE TO REALIZING YOUR FINANCIAL DREAM

In all my life I have never met anyone who likes to lose money and a rich man or woman who has never lost money. Losing money is a traumatizing experience even for me and I would avoid anything and anyone who could make me lose money. It's a common phobia for both the rich and the poor. There is nothing like a happy loser!

Fear of losing money is however not the problem. The problem is how different people handle it. While some would avoid any risky subjects or do what we commonly call playing safe, others would courageously face the risk head on. Ultimately, the two will reap differently. This I would say is what distinguishes the rich from the poor. The rich take on risks head on while the poor keep playing safe.

In my life, I have observed that to win, you may need to pass through many problems and losses. I drowned severally before I became a good swimmer; I still have scars on my legs as a result of the many falls while learning how to ride a bike; even as a baby, I fell many times before I could learn how walk. Even in sport, no one wakes up, goes to the field and wins the Olympics. They all undergo very worrying trying moments training and losing trials to the extent of giving up. Those that confront their fears in the end smile as they are rewarded for their effort.

The same thing applies in finances. You need to overcome fear. It is actually the only step next to your riches. However, for most people, the reason they don't win financially is because the pain of losing money is far greater than the joy of great financial reward. Only recently, when Mumias Sugar Company was on its knees before the government bailed it out; my friend Steve shocked me when he bought 200,000 shares at the Nairobi Securities Exchange at Ksh 1.50 per share. He made it worse when he said that he regretted he could not afford a million shares. That looked crazy but he was very convinced that the value would improve in a matter of days. It looked crazy to any logically thinking man. And true to his word, as soon as the government pumped Ksh 500,000,000 the stock shot to Ksh 3, doubling his money instantly!

The rich know that failure make them stronger and smarter. When Steve was asked what would happen if the prices went further south, he only said that he was optimistic about his idea and if he lost, he would only have learnt a lesson. And that's exactly what winners are all about! They face their fears head on by investing big and reaping big. On the contrary, we have many people who fear losing money so much that they lose. Instead of investing in real estate, stocks, start-up businesses, they would rather hold their money in the bank that offer a mere 0-6% interest per year. As you do that, please take note that you are the best customer for the bank because they lend that same money to someone else at 15-21%!

Another playing-it-safe technique used is buying balanced funds commonly known as unit trusts from financial planners. The unit trusts are an investment portfolio that is well balanced with long-term, short-term, risky, and non-risky components that make it the safest financial instrument. The rates offered for such again is a subject for another day. Additionally, balanced people 'invest' in liabilities like cars, homes, and electronic gadgets etc. that eat their money even further. Most of these items are bought on borrowed cash with aim of fitting in certain lifestyle or class. Desist from such and invest your money on items that earn you more money. The reason many people in this country struggle financially is because they play it safe. Well, in my opinion, balanced people go nowhere.

When you need to invest well regardless of the amount of money that you have, you got to focus. Yes they have told you before that you should not put all your eggs in one basket but I say if you have any desire for great financial rewards, focus. Once focused, follow that specific path till you hit it! Following a specific path helps you to think, research, and learn a lot from that environment that you are only left with one option, to succeed. Take an instance of the bic pens that we have used in this country for generations. If the proprietor of Haco industries had not focused, we could either be using other rival brands in our schools and offices like kilometric pen. Many other brands have overcome the test of time because of focusing. A brand like coca cola is known the world over because they have paid a lot of attention to it for generations.

Never the less, people are different and have different capabilities and appetite for risk up take. If you are the balanced type, the worst you can do is doing nothing. Begin investing in the unit trusts and the fixed deposit at an early age, say 20-25, but remember there is also financial risk in them as well. However if you have dreams of freedom of getting out of the Rat Race the first question to ask yourself is, "How do I respond to failure?" If failure inspires you to win, maybe you should go for it but only maybe. Begin that business. Buy those shares. Form that company. Set up that manufacturing unit. Start that farming business. Start that school. Get into real estate. Fear not. Act NOW!

ENVIRONMENT

By Angela Mutiso, cananews@gmail.com, Photo: Business as unusual

WORLD WATER DAY 2015

Safe water transforms lives

Residents of an Estate in Nairobi recently woke up to a rude shock when they noticed that the water entering their tanks was dirty and smelly. A clean up and water treatment followed but the damage had already been done. What can you do to ensure that your water is clean? This is a question that comes up in many parts of the world everyday.

So much is going on around the world and at the UN to drive home the point that water is life. In fact, the importance of water in our lives is so great that the United Nations General Assembly decided to dedicate a day each year to water. World Water Day is an annual event celebrated on March 22. The day focuses attention on the importance of freshwater and advocates for the sustainable management of freshwater resources. This day was first formally proposed in Agenda 21 of the 1992 United Nations Conference on Environment and Development in Rio de Janeiro. In 1993, the first World Water Day was designated by the United Nations General Assembly and since, each year focuses on a different issue.

The UN and its member nations devote this day to implementing UN recommendations and promoting concrete activities within their countries regarding the world's water resources. Additionally, a number of nongovernmental organizations promoting clean water and sustainable aquatic habitats have used World Water Day as a time to focus attention on the critical issues of our era. Events such as theatrical and musical celebrations, educational events, and campaigns to raise money for access to clean and affordable water are held worldwide on World Water Day, or on convenient dates close to March 22.

Water and Sustainable Development is the theme of 2015 World Water Day; it highlights a specific aspect of freshwater. Under the theme 'Water and Sustainable Development', the year 2015 provides an important opportunity to consolidate and build upon the previous World Water Days to highlight water's role in the sustainable development agenda.

UN-Water supports the World Water Day campaign and sets the theme each year. At the World Water Week 2014, UN-Water presents the plan for the World Water Day 2015 campaign, which is coordinated by UNDP with the support of WWAP, UNESCO, HABITAT, UNEP, The World Bank and UN-DESA.

Participants get an opportunity to learn more about the theme of World Water Day, get the latest update on how the international community perceives water's role in the post-2015 framework and are invited to get involved in the campaign. In addition, participants also discover the logo of the World Water Day 2015.

Meanwhile, Water aid Canada says water means different things to each of us but one thing is certain – it is vital for our lives. They say World Water Day is a day to celebrate life-giving water and points out that safe water transforms lives. "We want everyone, everywhere to have clean water, sanitation and hygiene by 2030 and we believe this goal is possible."

Water aid Canada further reveals that today 748 million people around the world still have no clean water to drink; and further points out that without it children get sick and miss school. Women waste hours walking for water rather than spending time more productively. 2015 is the year we can get clean water and safe toilets to the top of the global agenda. In September, the world will sign up to the Sustainable Development Goals (SDGs), new targets to end extreme poverty by 2030. Water aid Canada encouraged people the world over to use, this World Water Day to get involved and think about what water means to them; they further sought people's help to call for water and sanitation to be prioritized in these new goals ;they believe this will bring better health and prosperity for millions around the world. They further pose the question what can I do… and provide helpful answers: Take action for water and sanitation; 2015 is the year we can get clean water and safe toilets to the top of the global agenda; Pledge your support to a dedicated Sustainable Development Goal on water and sanitation; They stress that clean water and toilets are essential for life; Your support transforms lives.

Water and Sustainable Development

This is a moment to chart a new course – to change practices and actions that favour development at a significant environmental and social cost, including pollution, deforestation, loss of biodiversity and growing urban deprivation. Current trends in consumption show that there will be insufficient water in general, and quality water in particular, to meet the world's growing needs without dramatically changing the way these finite resources are used, managed and shared. In the face of competing demands, neglecting this fact will lead to increasingly difficult decisions to allocate water resources. The risk of localized conflicts cannot be overlooked in such a scenario.

We need concrete steps towards achieving sustainability at the global scale, in order to curb the rate at which the climate is changing. Water-related disasters have become the most economically and socially destructive of all natural hazards, disproportionately affecting women, poor and disadvantaged people and fuelling poverty.

In 2015, building on the experience of the Millennium Development Goals, States will craft a new and ambitious global development agenda and set action-oriented Sustainable Development Goals. The development of science, technology and innovation must have a central place in this new agenda. This will allow for modern assessments of water resources based on sound information systems and management approaches and it will also provide the foundation to move towards sustainable patterns of production and consumption- (UNESCO)

A statement from UNESCO further says: UNESCO is committed to advancing these goals across the board, drawing on its unique 'water family,' including our International Hydrological Programme, the Institute for Water Education in Delft, the World Water Assessment Programme in Perugia, as well as UNESCO centres and Chairs specialized in water around the globe. 2015 must be become the year for the international community to enshrine the importance of capacity enhancement and sharing good practices in water to build the future we want for all.

The UN World Water Development Report 2015 is launched

Meanwhile, the 2015 edition of the United Nations World Water Development Report (WWDR 2015), titled Water for a Sustainable World, was launched at the official celebration of the World Water Day, on March 20.

The WWDR 2015 demonstrates how water resources and services are essential to achieving global sustainability. Taking account of economic growth, social equity and environmental sustainability, the report's forward-looking narrative describes how major challenges and change factors in the modern world will affect – and can be affected by – water resources, services and related benefits. The UN says that the report provides a comprehensive overview of major and emerging trends from around the world, with examples of how some of the trend-related challenges have been addressed, their implications for policy-makers, and further actions that can be taken by stakeholders and the international community.

'Water is at the core of sustainable development'. Water resources, and the range of services they provide, underpin economic growth, poverty reduction and environmental sustainability. From food and energy security to human and environmental health, water has been shown to contribute to improvements in social well being, affecting the livelihoods of billions. Progress towards the achievement of most sustainable development goals requires significant improvement of water management across the globe.

The year 2015 marks a critical milestone on the road to sustainable development. As the Millennium Development Goals come to a close, a new cycle of Sustainable Development Goals (SDGs) is poised to guide national governments and the international community in the quest to achieve a sustainable world.

This latest edition of the WWDR clearly demonstrates how water is critical to nearly every aspect of sustainable development, and how a dedicated SDG for water would create social, economic, financial and other benefits that would extend to poverty alleviation, health, education, food and energy production, and the environment.

Taking account of economic growth, social equity and environmental sustainability, the report's forward-looking narrative describes how major challenges and change factors in the modern world will affect – and can be affected by – water resources, services and related benefits. The report provides a comprehensive overview of major and emerging trends from around the world, with examples of how some of the trend-related challenges have been addressed, their implications for policy-makers, and further actions that can be taken by stakeholders and the international community. What's new: The report begins by describing a world in the not-so-distant future in which water resources and water-related services are managed in such a way that the benefits derived from water and maximized and shared equitably throughout the world.

It states that this vision is not merely a fictional utopian outlook; it is a future that is entirely achievable, a future in which water is recognized and managed as the fundamental resource that supports all aspects of sustainable development. This vision represents a new and innovative approach to the WWDR, prompting readers to reflect on how our world could be, provided appropriate changes are made to the way water resources are perceived and managed. There is a video that shows the future of water: a vision for 2050 is also available.

You can play your part by supporting this year's theme as best you can.

HEALTH

By Angela Mutiso, cananews@gmail.com, Photo: BET

DEALING WITH FLU

Are you among those already struggling to deal with flu? It is a fact commonly acknowledged that when it comes to contagious diseases, you are most contagious at the onset of an infectious disease like flu. As a result, people are advised to keep away from work and school when they first notice flu symptoms to avoid re-infection. You need to rest for a few days during this time.

Webmd advises that you take the following measures;

1. Stay home and get plenty of rest
2. Drink plenty of fluids
3. Treat aches and fever so you feel comfortable
4. Use cough suppressants and expectorants to treat the cough
5. Use steam inhalations
6. Sit in a steamy bathroom
7. Run the humidifier
8. Try soothing lozenges
9. Try saline (salt water) nasal drops

It is advisable not to use over the counter cough and cold medications in children under 4. It is also advisable to drink plenty of fluids like soup, fruit juices and broth based soups. Fluids are believed to keep your respiratory system hydrated and to liquefy thick mucus that can build up and cause infection in the bronchial tubes. It further reveals that fever is also a flu symptom which comes about when your body temperature rises to fight off infection. The fever and aches can be treated with over the counter medications like ibuprofen or naproxen. But your doctor can advise you on the best medication to take at such times. They further inform you that Aspirin should never be given to children and adults younger than 19 years old with flu symptoms or cold because it is associated with a condition known as Reye's syndrome; a very serious illness that can damage the brain and liver. When using steam inhalation they suggest that you put some menthol in water and breathe in the steam for a while. Having a shower with a lot of steam about you can also do the trick. You can also suck lozenges to sooth your scratchy throat.

Meanwhile most medications for this viral illness are known to be most successful when taken tow days after the onset of flu. They decrease the duration of the flu and can help to prevent flu in case you have been exposed to it from someone else. Regarding treatments of influenza, Wikipedia reports that it includes a range of medications and therapies that are used in response to disease influenza. Treatments may either directly target the influenza virus itself; or just offer relief to symptoms of the disease, while the body's own immune system works to recover from infection.

The two main classes of antiviral drugs used against influenza are neuraminidase inhibitors, such as zanamivir and oseltamivir, or inhibitors of the viral M2 protein. These drugs can reduce the severity of symptoms if taken soon after infection and can also be taken to decrease the risk of infection. However, virus strains have emerged that show drug resistance to both classes of drug.

The United States authority on disease prevention, the Centers for Disease Control and Prevention (CDC), recommends that persons suffering from influenza infections should among other things, abstain from smoking and alcohol, consult a doctor early for best possible treatment and remain alert for emergency warning signs which can include: Difficulty breathing or shortness of breath, pain or pressure in the chest or abdomen, dizziness, confusion and severe or persistent vomiting. They say in children other warning signs include irritability, failing to wake up and interact, rapid breathing, and a bluish skin color. Another warning sign in children is if the flu symptoms appear to resolve, but then reappear with fever and a bad cough. Anti vital drugs directly target the viruses responsible for influenza infections. And they are known to work well when taken a few days after onset.

Controlling Dandruff

That unpleasant itch commonly associated with dandruff can be very uncomfortable. Many people do not realize that stress is one of the causes of dandruff. Neither are many people aware that regular combing of the hair can help reduce the flakes as natural oils in your scalp can evenly distribute oil in your system.

Wiki how has a few tips for you: Try washing your hair daily with a mild shampoo until the dandruff clears; shampoos containing tea tree oil are particularly effective; try not to scratch your scalp when using shampoo; instead, gently massage your scalp without scratching, as this will not damage your hair or scalp; wash your hair regularly, but not compulsively; remember

Dandruff is caused when your scalp sheds dead skin cells. It is not caused by hair itself.

The Mayo Clinic recommends washing your hair every day with a dandruff shampoo until the flakes subside, and then continuing to wash your hair with the anti-dandruff shampoo 2-3 times per week too much shampooing, especially with harsh chemicals, tends to irritate the scalp and dry it out, causing more dandruff.

To help prevent dandruff, brush your hair after you shower and shampoo; this will help distribute the oil that is naturally occurring in your scalp and hair over the entire surface of your head. When starting at your scalp, brush outward to help distribute oil from the scalp along your entire head. Avoid stress; Stress can cause dandruff. Also, eat healthily. An excess of unhealthy foods will often result in skin, scalp and hair problems.

Foods rich in zinc and vitamin B6 are good in maintaining healthy hair and scalp. Also, Use yogurt to get rid of that dandruff. Just wash and rinse your hair, then rub plain yogurt into the scalp, and leave for 10-15 minutes. Rinse, then wash again, using as little shampoo as necessary.

Apple cider vinegar is also known to be good; Take one part apple cider vinegar and mix it with one part water. Wash your hair normally, then pour vinegar-water mixture carefully onto hair and scrub into your scalp. Take care not to let any get into your eyes. If you have any unhealed scratch or scab, it can burn; so you can rinse the affected area with water. Leave on for 10-15 minutes, and then rinse with water. The vinegar smell will disappear once your hair is dry. Repeat daily for about a week. Peel a whole banana. Mix with two cups vinegar. Stir until completely combined. You may want to use a fork or whisk to make a paste.

Apply the mixture into hair. Massage the mixture into your scalp. Continue for 5-10 minutes or until the mixture covers your hair completely. Leave in for twenty minutes to one hour. Then, rinse the mixture out completely. Repeat every day for one week. Then, you can do this once a week as a preventative treatment. You can also replace your shampoo with a handful of baking soda. Baking soda is used in a wide variety of ways, and is reputed to work as a natural dandruff remover. Wait for the baking soda to work its magic. After two weeks of your baking soda shampoo, your scalp should begin producing natural oils. You can also mix freshly squeezed lemon juice with baking soda.

Make a coconut and honey scalp rub. Mix coconut oil, olive oil, yoghurt and honey together. They need to form a paste of medium consistency. Massage the mixture into your scalp, this opens up the pores on your head and promotes blood circulation. Plus, it just plain feels great.

Make sure your hair dryer is not so hot. Dry heat, can contribute to a flaky, scalp. If you if you often use a blow dryer, ensure you use low heat.

There are several ways of controlling dandruff, so do not let it irritate you.

Health tips

- Cloves can relieve pain naturally
- Powder your toes after a bath or shower. This will help your feet stay dry and less hospitable to fungus.
- Don't worry if you yawn a lot. It is your body's way of making you more alert.
- To prevent bacon from curling, dip them in cold water before you fry. (Mary Ellen)
- To get rid of bad smells from the fridge fill a small bowl of charcoal and put it in the fridge.
- If you have peeled too many potatoes, you can cover them with cold water to which a few drops of vinegar has been added. Keep in the fridge for at least four days.

"Whole communities have fled their villages and endured unimaginable suffering…even if the fighting stopped tomorrow, it will take years of investment and painstaking work to rebuild livelihoods and services."

The International Committee of the Red Cross (ICRC) President Maurer; ICRC noted that Boko Haram insurgency had caused one of the most serious humanitarian crisis in Africa.

"I would like to see more security operations and interventions such as exemptions on security apparatus such as CCTV cameras being implemented in the budget."
Francis Kamau Ernst and Young"

"We want you to benefit from the taxes you pay, the employment that you will create and the capital you will inject in the economy."

President Uhuru Kenyatta: addressing a delegation of more than 50 business executives from France who were in Kenya in search of investment opportunities. The representatives of the major French companies included Airbus Helicopters and Alcatel-Lucent, who were led by the Minister of State for Foreign Trade of France, Mr. Matthias Feki.

"A girl ran into school claiming that she was being chased by armed men who had grabbed the milk she was taking to the market….the boys fled into the bushes fearing that the militants would attack the school."
Gari Boys Principal Mahat Adan; he sought refuge in Mandera Town.

"The armed men have been roaming between Gari shopping centre and Warankara Town, harassing innocent people and warning them not to go near their camp or inform the authorities of their presence in the area…. We are worried that this money could be used to lure these runaway students into terror cells. As we mobilize students to move to a safe place, we want the government to wake up and do something."

Wankara ward Representative Abdirashid Maalim. He also said their school was not fenced.
"This might go up if no measures are taken by the county government".

Wema Program Officer Henry Otieno regretting that street children had increased from 60,000 to 300,000 over the past six years….. (News from Mombasa)
"President Uhuru Kenyatta should not be blamed for some of the government inefficiencies, which arise as a result of lazy and corrupt officers."

The National Alliance Nakuru area Chairman Dr. Abdul Noor: He said this during Madaraka day celebrations.

"As you work toward the launch of your business, keep two things in mind; the easiest part of being an entrepreneur is coming up with ideas; the hardest part is making those ideas become a reality… the latter usually involves doing something you are necessarily good at – like building a website for example or producing an app or coming up with a strong marketing strategy."

"Seven members have been expelled and 13 have been suspended. The decision was made last night following a meeting of the politburo…Those suspended will not hold any party position for a period of two or five years beginning from January 2015. They remain card-carrying party members including MPs."

Zanu-PF party spokesman Simon Khaya Moyo
"However and with all due respect, we feel strongly that the magistrate went beyond the call of duty when, in conclusion of her eight-hour judgment, she stated categorically that, in their view, this was a simple case of robbery and that it never involved forces beyond the convicted three. We beg to differ. We are still concerned that the fourth gunman has never been apprehended. He is out there, somewhere."

"We have always been struck by the fact that the four gunmen were not masked; that they left the lights on; that they never ransacked any of the boxes we had; that they went about their business as if they had nothing to fear; and that even after it was quite clear that we had no more money to give, they just hung around as it awaiting orders for the next act."

These statements were made by renowned novelist Ngugi wa Thiong'o and his wife Njeeri who were victims of an attack in their rented apartment in Nairobi during a previous visit. They were in the country recently.


Photo: africa-ontherise

MOBILE PHONE ACCESS IN AFRICA SET TO DOUBLE IN NEXT FIVE YEARS

"Eighty percent of sub-Saharan Africa's 800 million people should have access to mobile telephones by the end of the decade, double the current rate, although government help is needed to reach far-flung areas."
Source: Reuters

GENERAL ELECTRIC TO SPLASH $10 BILLION ON AFRICA TARGETS NIGERIA'S RAIL SECTOR

The company announced a $10 billion will be invested in the continent, specifically rail construction.
Source: Ventures Africa

WORLD ECONOMIC FORUM AFRICA 2015

We have been in Cape Town all week to cover World Economic Forum Africa. Check out the videos from partners CNBC as well as original content.
Source: Africa.com

ETHIOPIA'S HOT, NIGERIA'S NOT, FOR INVESTORS TARGETING AFRICA

According to a report released in June, "Ethiopia was Africa's eighth-largest recipient of foreign direct investment last year.
Source: Bloomberg

FOCUS ON CÔTE D'IVOIRE'S POSITIVE GROWTH

Côte d'Ivoire (Ivory Coast) is one of the gems of West African economies, with a growth rate of about 8 percent. For some perspective about what to expect from the country in the future, CNBC Africa speaks to Abdourahmane Cisse, Minister in charge of the country's Budget.
Source: Africa.com

AFRICA'S THE NEW CHINA — HERE'S WHY INVESTORS SHOULD CARE

"Sub-Saharan Africa boasts some of the most exciting markets in the world, from both consumer and production perspectives. Kenya and Nigeria are on track to become two of the world's fastest-growing economies this year, and growth in Ethiopia and Rwanda consistently exceeds 4 percent every single year."
Source: Venture Burn

SOLAR POWER TO THE PEOPLE: HOW THE SUN CAN EASE AFRICA'S ELECTRICITY CRISIS

The scale of the continent's energy deficit often fuels a sense of fatalism and paralysis. Yet on the flipside of this crisis are enormous opportunities
Source: The Guardian

ETHIOPIA: EAST AFRICA'S BIGGEST CEMENT PLANT OPENS

Dangote Group opened the biggest cement plant in East Africa, located near the capital, Addis Ababa.
Source: The Africa Report

FACEBOOK TAKES INTERNET.ORG TO SENEGAL

Senegal is the sixth country in Africa where Internet.org is available. Internet.org is currently available in 13 countries, which includes: Zambia, Tanzania, Ghana, Kenya, Colombia, Guatemala, India, Bangladesh, Indonesia, Philippines, Malawi, Pakistan, and Senegal.
Source: IT News Africa

NIGERIANS UPSET OVER FIRST LADY'S FLASHY WATCH

Photos of Nigeria's first lady wearing an expensive watch led some Nigerians to ask whether they undermine President Buhari's "man of the people" image.
Source: BBC

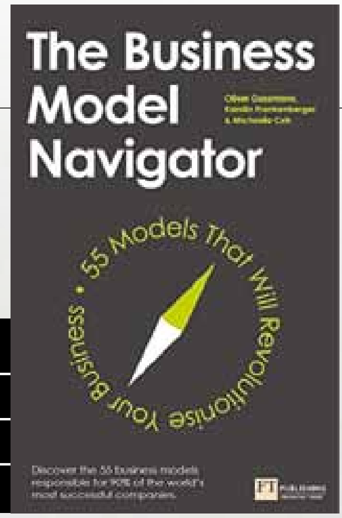
AMI-LDRI ANNOUNCE PARTNERSHIP TO DRIVE DIGITAL INNOVATION AND DEVELOPMENT OF TECHNOLOGY FOR MEDIA

The African Media Initiative (AMI) has teamed up with the Local Development Research Institute (LDRI) to develop technology and data literacy training programs for media professionals. The two organizations will seek to deliver a range of services, including design and facilitation for development of technology solutions for the African media industry, as well as the development of a pan-African training curriculum on data literacy.

As AMI enters its second phase of operations, it is seeking to strengthen its digital Innovations and content development program, building on the technical and functional expertise it developed in the first phase of operations, from 2010-2014. LDRI, with its expertise and experience in capacity building for technology and data, will be AMI's lead partner in implementing the digital innovations that will be rolled out over the next five years.

While announcing the partnership, AMI CEO Eric Chinje said: "AMI is excited to welcome new partners who will work with AMI to facilitate technology adaptation by the media fraternity in Africa, and enable them to seize all opportunities present in this digital era." LDRI Executive Director Muchiri Nyaggah added that public participation is only possible when citizens are aware of the issues that affect them and understand the role they can play. Muchiri said, "the media is of critical importance to participation due to the role it plays as an infomediary in the broader ecosystem. LDRI is therefore excited to be working with AMI in building capacity within Africa's media practitioners on the use of data to tell Africa's development story." LDRI will be taking over AMI's Digital Innovations Programme docket that was previously run by Justin Arenstein and Nqobile Sibisi, both of whom left AMI at the end of 2014.

The African Media Initiative (AMI) is a pan-African organization that seeks to strengthen the continent's private and independent media sector from an owner and operator perspective to promote democratic governance, social development and economic growth.



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A strong business model is the foundation to business success. However, many times, we fail to adapt, sticking to outdated models that are no longer delivering the results we require.

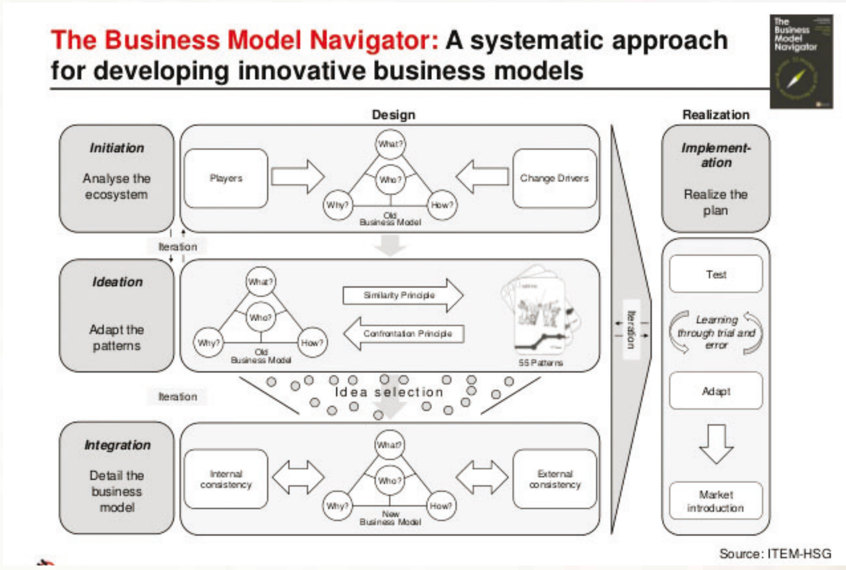
In this revolutionary book published in 2014, the authors explain that the purpose of the book is to introduce you to a methodology –the business Model Navigator – that will help you innovate your business model in a structured manner. They say their research has shown that business model innovation is based on 55 recurring patterns; from being an art, business model innovation has become a science. The authors show that a company's current business model becomes tangible by describing it in four dimensions – the customer (Who?), the value proposition, (What) the value chain (How?) and the profit mechanism, (Why?)

The book is structured into three consecutive parts. The first part aims at introducing the core elements and principles of the Business Model Navigator. In this regard, they present a framework to understand the concept of business model design and prepare the reader for thinking in business models. Along with the magic triangle describing the logic and dimensions of a business model, their four-step process to develop innovative business models in a structured manner is presented. Building on the first part of the book, the second part provides deep insight into the core element of the Business Model Navigator – the 55 Business model patterns. These are powerful tools for creating new ides for innovative business models and form the common ground for creative imitation and recombination of concepts. The authors say for the impatient reader, Part Three offers the opportunity to apply the Business Model Navigator and the 55 patterns on one's business model immediately. Using an abbreviated version of the Business Model Navigator – 10 steps to innovate your business model idea might be briefly sketched right after reading the text.

What is a business model and why should it be innovated? Their answer- many companies develop excellent, technologically sophisticated products in the developed world especially, businesses' ability to innovate never fails to impress. Why do such businesses, whether in the East or West, suddenly lose their competitive advantage? Strong companies such as Agfa, AEG, American Airlines, Lehman Brothers, DEC, Grundig, Loewe, Nakamichi, Nixdorf Computer, Motorola, Nokia, Takefuji, Triumph and Kodak suddenly disappear from prominence after trading successfully for decades on end. What went wrong? They say the answer although painful, is simple. These companies failed to adjust their business models to the changing environment around them. They have been resting on their laurels from past successes. Today, a company's competitive success depends upon its ability to create an innovative business model.

The authors say that the methods they present in this book work surprisingly well and have made their mark in many companies and organizations. They state that practitioners are hooked on the Business Model Navigator and so are they. They hope that their efforts will help in some small way in ensuring that future business model innovations are increasingly developed. On top of providing a practical framework for adopting and innovating your business model, each of the 55 models are in a quick-read format, covering what it is, who invented it and who uses it now, when and how to apply it.

This exciting book also discusses the business model navigator, Akido (convert competitors" strengths to weaknesses), Auction (going once… going twice… sold!), Barter (tit for tat), Cash machine (coining money with negative working capital), cross-selling (killing two birds with one stone), crowd-sourcing (outsourcing the crowd), Direct selling (skipping the middleman) performance based contracting (basing fees on results) among others, and advises you to actively manage the change process.



Compiled by Angela Mutiso, cananews@gmail.com

CALM SEAS NEVER MAKE GOOD SAILORS

Star: Silvah Ndallah Kivindu
Age: 26
Qualification: CPA K
B. COM: Ongoing
First Job: Point of sale Cashier
Organization: Tile and Carpet Centre Ltd
Year: 2011
Responsibility: Receiving and receipting purchases made by customers and performing stock reconciliations after a purchase and delivery has been made.

When I asked Silvah why he thought he should be the star this month, he had an instant answer:

"I always thank God because without him I wouldn't be where I am. I come from a very humble background and life has been difficult for me. I had been concerned about not being able to pay my fees as I was doing my CPA. In a bid to deal with that situation, I called an uncle after I finished the last paper of section 3 and asked him to help me get a job to enable me raise fees for the next section. From this point on, things just seemed to fall into place in my favor. My uncle told me of a lady that had announced in church that Tile and Carpet Centre were having their big annual sale and needed point of sale cashiers (POS). He gave me a number, I called and spoke to the lady and secured an interview. I now had the challenge of getting fare to go to Nairobi, and again I was lucky because a friend who had previously been unable to repay a debt for a long time suddenly called from the blue and said he had the money. After collecting this long awaited cash, I called up my friend who was a student at The University of Nairobi, staying in the school hostels and he let me stay with him, when I came for the interview and after I started working. I was the last to be interviewed and was one of the fifteen people taken from a group of more than twenty and the only one retained thereafter; Thanks to the flexible rules at the University at that time, I was able to sleep and eat at the Student Centre. I thank God for this. And I want everyone struggling out there to understand that if you seek God, you will find him…never give up!"

What is your current position?
Senior accountant

What are your responsibilities?

- Constructing and monitoring reliable control systems in accounts payable processes
- Filing tax returns through KRA Itax portal –Installment Tax, V.A.T and Withholding Tax
- Creditor's statements reconciliation and follow ups on any discrepancies
- Costing for VAT purposes
- Making both local and foreign payments
- Liaising with KRA on tax issues and disputes arising
- Preparing periodic reports for payments as per the creditor's terms
- Coding, entering and posting transactions into the financial system
- Filing and ensuring proper maintenance of accounting records
- Monitoring cash and bank balances and performing reconciliations of both
- Supervising Petty Cashiers and monthly reconciliations
- Overseeing the financial operations of foreign subsidiary and foreign operations
- Allocation of expenses to different cost centers and departments

Why did you join ICPAK?
I understand that to be fully qualified you have to be a member of ICPAK. I also believe if you want to do the right thing, do it the right way and to the best of your ability. After I qualified as an accountant I wanted to be associated with a professional body that regulates accountants in Kenya and ICPAK offered me that. Being associated with a good professional body boosts your self esteem and image and raises your profile.

Why did you take up accounting?
While growing up I wanted to be a doctor; just like every kid wants to be a doctor or a pilot. I remember when in a bid to 'practice medicine' I would get together with my younger sister to look for frogs and we would cut through them using razors and stitch them up again with a needle and thread. But the frogs would eventually die… so we gave up. But the real switch came when I went to high school in 2004. Our business teacher who happened to be a church elder was talking about the different subjects that constituted Business Studies before as the syllabus had changed and commerce, accounting and economics were brought together to form business studies as a single subject. I felt this urge to take up accounting then and pursue it as a career. I am happy now that my analytical skills have improved and my passion for accounting has yielded fruit. I started my CPA in 2009 and graduated in December 2012.

Professional experience?
I Joined Tile and Carpet Centre in 2011 and I have been working there since. While there I have gained knowledge in the following:

- Costing and allocation of costs
- Foreign recruiting transactions
- Better analytical skills; by mostly analyzing the foreign markets and their impact on the activities of Tile and Carpet Centre Ltd
- Better understanding of the tax policies in Kenya and how they affect businesses.

Career highlights
When we opened the Uganda branch I was told to be in charge of its accounting department. Then during the annual review this year, my boss said "you are my super star". You can imagine how delighted I was. I was given the responsibility to deal with payables and receivables; I took it upon myself to learn more about tax issues, accounting systems, deadlines and modes of remitting taxes and accounting policies in Uganda. After one month, (precisely in June, 2014) I was fully in the know; their VAT and PAYE have to be remitted by 15th of every month. I am always ready by 6th; on completion, I hand it over to my boss to over see it. This has now gone on for one year and we are still standing; we meet our deadlines. Making this possible really makes me happy. The Uganda branch is my career highlight; I update my records regularly.

What is the most challenging aspect of your work?
My age; being young… When I got there, I was the youngest. When you have been given more tasks and responsibilities, and then you get people older than you who feel they should not be taking instructions from you, it can be a real problem. But one advantage I have is the support I get from my boss.

What do you think about accounting in Kenya?
It is moving very well. Today most organizations need qualified accountants; not just qualified but those who are registered with ICPAK; that was not the case before. Even the government seems to be insisting on this. Accountants are always needed and we are seeing a clear shift, because before, anyone would be appointed. The present government is appointing and employing professionals. Many people are appreciating what accountants are doing and we must thank ICPAK for boosting this profession. I think accountants have a very bright future in this country.

What is your advice for budding accountants?
One thing that sells in the accounting profession is your integrity. No matter who pushes you to do something unethical, always stand your ground and do not bow to pressure.

What is your philosophy in life?
Calm seas never make good sailors. Don't remain in the comfort zone- ever. If there is no challenge, try to create one. If for example you should give your boss VAT returns on the 10th, do what I do, I always try to give it a week in advance. That keeps me moving, it gives me the energy and psyche. I am one person who does not believe in fulfilling my assignments sometime in the future; I believe in the power of now!

Who and what inspires you and why?
My wonderful parents; they tried to see me through school when it was very difficult for them. They have managed to pull through and provide for all of us. They are hard working people, very loving. I draw much inspiration from the Bible; especially a verse that my mum wrote on a success card when I was in class 8. It can be found it Joshua Chapter 1 verse 9. It says; "Remember that I have commanded you to be determined and confident! Don't be afraid or discouraged, for I, the Lord your God, am with you wherever you go." Wherever I go and whenever I do my exams, I thank God I was shown this verse by my mum at a tender age. It gives me the assurance that God is with me. I always keep my documents well; I still have my nursery report card, neatly filed, hope someday it will inspire my children.

What is the greatest challenge you have experienced in your life?
I must admit that my life has been quite bumpy. Because of the extreme poverty at home, I never really wanted to be there. I tried to spend as much time in school as possible, because that meant I would get a meal and sleep well. In desperation to avoid the harsh reality, I indulged in smoking, chewing tobacco and drinking at the age of 15. While in school one night I decided to smoke in class after prep time was over. Then I was found by the master on duty. When he found me, he asked me why I was doing this to myself and yet I was a very promising student because my grades were always good. When he heard my story, he was touched. He told me he was not going to tell my parents but would leave it up to me to do it. To cut a long story short, I invited him to come home and I told my parents what was happening in my life. We all got into deep prayer… and I accepted Jesus… the rest is history.

What has made you rise so fast?
Hard work: Even the Bible says when you don't work, don't eat. Apart from hard work, I believe one should always have a passion for something. Nothing can stop you if you have one. But above all, never forget to pray; for God works in miraculous ways. For some people when God delays, they think its denial, but it could be that it is just not the right time or he is still preparing you for the right thing.

What are your hobbies?
I like watching movies, spending time with friends and to give my time and talents to the church. I also like playing basketball and reading inspirational books. I always carry a book with me. I am currently reading Your best life now; 7 steps to living at your full potential by Joel Osteen. I like reading Business Journals too.

Vote of thanks
I would like to thank the almighty God for making life lighter for me despite what I have gone through. I thank my parents Damaris and James Ndala for their support and prayers throughout my life and my sister Anita, brothers Brian and Samuel. I thank my high school teachers Mr. Mbithi for making me have the passion for accounting and Mr. Kanene of Reward Institute in Thika and my boss and manager Mrs. Jita Dipak Gandhi for the opportunity she has given me to work at Tile and Carpet centre, plus my friend Daniel who accommodated me when I first went to Nairobi and all my friends… God bless them!

N.B: Star of the month is for you. If you wish to appear on this page, contact us at icpak@icpak.com we cover ICPAK members up to age 40.

INSTITUTE NEWS

By Staff Writer

MORE BENEFITS FOR ICPAK MEMBERS

From left: ICPAK Chief Executive - CPA Dr. Patrick Ngumi (Phd), Tom Nyagare (ICPAK), Paul Cheruiyot - Parts Manager Toyota Kenya, CPA Rashid Mohammed, Jacinta Magero (Toyota Kenya), Immediate past ICPAK Chairman - FCPA Benson Okundi, Chief Commercial Director, Simba Corp Ltd. - Paul Chagga, Ian Lang'at - Director Communication CEP Ltd., CPA David Gichuhi - Chairman Mhasibu SACCO, FCPA Pius Nduatih (ICPAK Council member), CPA Susan Oyatsi (ICPAK Council member), CPA Rose Mwaura (ICPAK Council member)

ICPAK members will now get to enjoy more member benefits following the signing of agreements with six other organizations. The MOU signals a commitment by the Institute to enhancing member lifestyle by providing products and services to its members. The agreements were signed during ICPAK's 31st Annual Seminar held in Mombasa on 20th May, 2015 with:

1. Simba Corp ltd
2. Mhasibu Cooperative Society ltd
3. CEP Ltd.
4. Hilton
5. Toyota Kenya
6. Institute of Human Resource Management (IHRM)

ICPAK members will now get to enjoy more member benefits following the signing of agreements with six other organizations. The MOU signals a commitment by the Institute to enhancing member lifestyle by providing products and services to its members.

ICPAK - Simba Corp ltd MOU

Simba Corp is an intergrated business group with controlling interests in such diversified fields as motor sales services, hospitality, investment and financial services. As an ICPAK member, you will purchase vehicles at discounted prices as follows:

1) Discounts on purchase of private vehicles:
   a. Mitsubishi passenger cars: Pajero; Pajero Sports; Outlander; ASX and Lancer – 5% BMW range of vehicles and motorbikes (discount on a case by case basis)
   b. Renault Model: Duster, Koleos and Fluence models – 7.5%
   c. Mahindra: all models – 7.5%
   d. Geely: LC Cross and Emgrand models – 7.5%

2) Discount on purchase of commercial vehicles:
   a. Mitsubishi FUSO Trucks – 5%
   b. Mitsubishi FUSO Canters – 5%
   c. Mitsubishi FUSO Buses – 5%

3) Discount on Purchase of Tractors: SAME and FRUTTETO models – 5% discount on purchase of tractors and implements: same tractors and otma implements – 7.5%

4) Discount on purchase of Generators: AKSA model - 7.5% all models of the aksa range

5) Discount on purchase of genuine spare parts for all above models - 20% with the exception of BMW vehicles and motorbikes which will be dealt with on a case by case basis

6) Labour charges for all above models – 10% discount

7) Car rental: AVIS brand – 10% on rate card

8) You will get assistance on accessing financing options with all leading banks

9) Access Leasing and Hire Purchase options available at competitive rates

10) Fleet management and tracking solution – discounts on a case by case basis.

ICPAK - Mhasibu Cooperative Society ltd MOU

Mhasibu SACCO serves members engaged in the accounting profession. This includes qualified accountants yet to be members of ICPAK, students of KASNEB & ACCA, employees of institutions that offer training in accounts as well as the spouses and children of existing members. Following this agreement, you will now be able to:

1) Purchase plots at the same discount as Mhasibu members.

2) Mhasibu SACCO members will be able to access a soft loan to register with ICPAK. The loan will be directly remitted to the account of ICPAK.

3) As an ICPAK member, you can now access a soft loan to pay your annual subscriptions. The loan will be directly remitted to the ICPAK account.

4) You can now access AON MINET at the same rates as Mhasibu members.

5) Access the Asset Financing facility to purchase motor vehicles, plots and other assets.

ICPAK - CEP Ltd. MOU

ICPAK has partnered with CEP Ltd. to develop and maintain ICPAK app dabbed ICPAK LiVE. The application will enable you to:

- Interact with the Institute in real time
- Socialise with your professional peers
- Access upcoming events and news
- Earn your CPD points by watching live streamed events and recorded videos
- Update your membership details including your CPD records
- Post your technical queries to the Institute (Standards & Compliance
- Give feedback to the Institute

ICPAK - Hilton Hotel MOU

The Institute negotiated for discounted rates with Hilton hotel. You will now be able to access services at discounted rates as follows:

- 15% discount on East African Resident rates for accommodation
- 15% discount on daily membership at the Hilton Nairobi Health club
- 15% discount on massage services (advance booking is required)
- 15% discount on laundry & dry cleaning at the Hilton Nairobi Laundry shop
- 15% on Restaurant and bar bills at the Food & Beverage outlets
- Special discount will be extended for banquets and conference meetings (upon request and subject to availability of space)

ICPAK - Toyota Kenya MOU

TKL will offer its products and services at the following preferential or discounted rates:

i. On the purchase of private cars a discount of 3.5% of the retail price and a discount of 4.5% of the retail price on the purchase of commercial cars.

ii. For all pre owned and locally acquired Toyota motor vehicles a discount of 15% of the retail price for the purchase of genuine Toyota parts.

iii. For service on all pre owned and locally acquired Toyota cars a discount of 15% of the going rates.

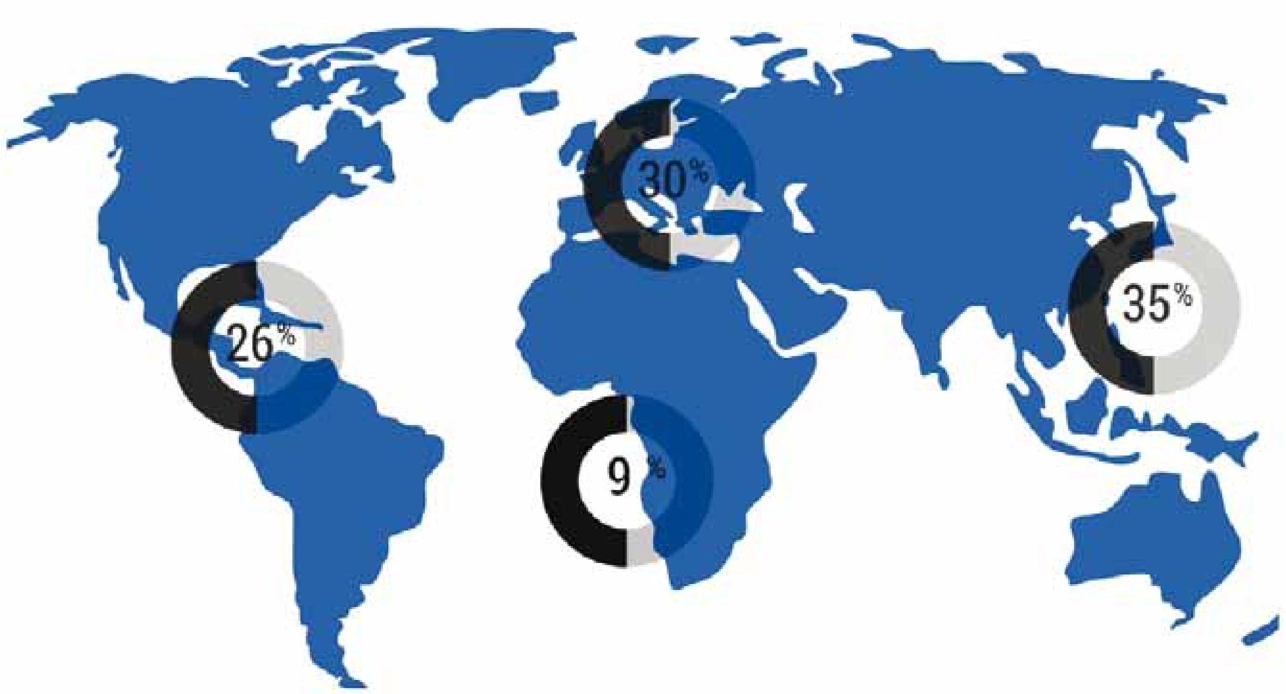
ICPAK - Institute of Human Resource Management (IHRM) MOU

The Institute of Human Resource Management, (IHRM) is the professional body of Human Resource Management practitioners in Kenya.

The agreement puts in place a framework for corporation which will see the two organisations jointly promote the profession, mutually recognise CPD events and advocate for employment of CPAs in corporations and organisations.

By Jim McFie, a Fellow of the Institute of Certified Public Accountants of Kenya

■ IFAC BOARD MEMBERS BY REGION: AMERICAS, AFRICA, EUROPE AND ASIA-PACIFIC (2014)



Americas (26%): Canada (2), US (2), Jamaica (1) and Brazil (1); **Africa (9%):** Nigeria (1) and South Africa (1); **Europe (30%):** UK (2), Norway (1), Ireland (1); France (1); Germany (1) and Turkey (1); **Asia-Pacific (35%):** Australia (2), China (1), Hong Kong (1), India (1), Indonesia (1), Republic of Korea (1), and Japan (1).

ASSESSING THE PROFESSIONAL COMPETENCE OF APPLICANTS TO ICPAK

Do We Follow World Standards?

The overarching body responsible for the accountancy profession on a worldwide basis is the International Federation of Accountants (IFAC). The Institute of Certified Public Accountants of Kenya (ICPAK) has been a member of IFAC since 1978. IFAC serves several functions. One is contributing to the development of high-quality standards and guidance; a second is facilitating the adoption and implementation of high-quality standards and guidance; a third is contributing to the development of strong professional accountancy organizations and accounting firms; a fourth is contributing to high-quality practices by professional accountants; and a fifth is promoting the value of professional accountants worldwide. IFAC was founded the same year as ICPAK - in 1977; it is currently comprised of 179 member and associate institutes of accountants in 130 countries and jurisdictions, representing approximately 2.5 million accountants in public practice, education, government service, industry, and commerce. As part of its public interest mandate, IFAC contributes to the development, adoption, and implementation of high-quality international education standards, primarily through its support of the International Accounting Education Standards Board (IAESB). IFAC provides human resources, facilities management, communications support and funding to this independent standard-setting board, and facilitates the nominations and selection process for board members. CPA Isaac Njuguna of the Kenya Accountants and Secretaries National Examinations Board (KASNEB) is a member of the board of IAESB. IAESB sets its own agendas and approves its publications in accordance with its due process and without IFAC's involvement. IFAC publishes the handbooks, standards and other publications and owns the copyrights to these publications.

The International Accounting Education Standards Board (IAESB) is an independent standard-setting body that develops education standards, guidance, and information papers for use by International Federation of Accountants (IFAC) member bodies and other interested stakeholders in professional accounting education, such as universities and education providers, employers, regulators, government authorities, accountants, and prospective accountants. The objective of IAESB, as outlined in its Terms of Reference, is to serve the public interest by establishing a series of high-quality standards and other publications reflecting good practice in the education, development, and assessment of professional accountants, promoting the adoption and implementation of International Education Standards, developing education benchmarks for measuring the implementation of the International Education Standards and advancing international debate on emerging issues relating to the education, development, and assessment of professional accountants.

The Accountants Act that regulates the accountancy profession in Kenya established a separate body, KASNEB, for the accountancy professional examinations in the country. The majority of the students of KASNEB is comprised of those studying for accountancy examinations either at the technician level or at the full certified public accountant level.

IFAC President Warren Allen speaks on Governance to 3rd Saudi-Pak Accountancy Symposium

KASNEB is about to publish a new syllabus for the CPA examinations with effect from 1 July 2015. IAESB has also published an updated version of International Education Standard (IES) 6 on the initial professional development and competence of accountants, also effective on 1 July 2015.

IES 6 prescribes the requirements for the assessment of professional competence of aspiring professional accountants that need to be achieved by the end of Initial Professional Development (IPD). ICPAK, as an IFAC member body, has the responsibility to assess whether aspiring professional accountants have achieved the appropriate level of professional competence by the end of IPD.

IES 6 specifies requirements for the assessment of professional competence. IES 2, Initial Professional Development—Technical Competence, IES 3, Initial Professional Development—Professional Skills, and IES 4, Initial Professional Development—Professional Values, Ethics, and Attitudes, specify assessment requirements relevant to their areas of focus within IPD. IES 5, Initial Professional Development—Practical Experience, specifies requirements for the assessment of practical experience.

When considering an application from a CPA Graduate (that is a person who has passed all the CPA examinations of KASNEB), ICPAK must assess whether the aspiring professional accountant has achieved an appropriate level of professional competence that is needed to perform the role of a professional accountant. IFAC stipulates that member bodies must formally assess whether aspiring professional accountants have achieved an appropriate level of professional competence by the end of IPD, drawing on the outcomes of a range of assessment activities that are undertaken during IPD. IES 6 lays down the requirement that IFAC member bodies must design assessment activities that have high levels of reliability, validity, equity, transparency and sufficiency within professional accounting education programs; in addition, IFAC member bodies must base the assessment of the professional competence of aspiring professional accountants on verifiable evidence. It is important to keep this in mind when applying for membership of ICPAK: the majority of applicants provide this evidence but some do not – which delays the process of being admitted to ICPAK.

IES 6 states that there are many different ways to describe and categorize professional competence. For IFAC, professional competence is the ability to perform a role to a defined standard. Professional competence consists of technical competence, professional

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Edwin Wamukoya receives KASNEB accreditation from KASNEB CEO FCPA Pius Nduatih

skills and professional values, ethics, and attitudes. Each area of professional competence is further described by a set of learning outcomes in the relevant earlier IESs, which I shall cover in future articles. During IPD, assessment may be undertaken by a range of stakeholders, including the IFAC member body, employers, regulators, licensing bodies, universities, colleges and private education providers. Although the assessment of professional competence during IPD is the responsibility of IFAC member bodies, other stakeholders may provide substantive input into assessment activities – as is the case of KASNEB in Kenya.

Assessing whether aspiring professional accountants achieve an appropriate level of professional competence serves several purposes. First, the public interest is protected, and the credibility of the profession is enhanced, when only those who meet the profession's competence requirements are permitted to be professional accountants.

Second, IFAC member bodies and regulatory authorities have a responsibility to ensure that professional accountants have the competence expected of them by the public, employers and clients.

Third, professional accountants have a continuing duty to maintain professional competence to ensure that clients, employers and relevant stakeholders receive competent professional service.

To formally assess whether professional competence has been achieved, ICPAK may draw on the outcomes of one or more assessment activities that take place during IPD. The configuration of the assessment activities during IPD may vary, and may include, but are not limited to: (a) a single multi-disciplinary examination conducted by the end of IPD; (b) a series of examinations that focus on specific areas of professional competence, conducted throughout IPD (the Kenya model); or (c) a series of examinations and workplace assessments conducted throughout IPD. IES 6 defines assessment activities are those activities designed to assess specific areas of professional competence. During IPD, assessment activities can be selected to match the particular aspect of professional competence being assessed. Examples of assessment activities may include, but are not limited to: (a) written examinations; (b) oral examinations; (c) objective testing; (d) computer-assisted testing; (e) workplace assessment of competence by employers; and (f) review of a portfolio of evidence on completion of workplace activities.

The types of assessment activities selected may depend on factors specific to each IFAC member body, which may include, but are not limited to: (a) the remoteness and spread of geographical locations where aspiring professional accountants are based; (b) available educational and other resources of the IFAC member body; (c) the number and backgrounds of aspiring professional accountants being assessed; and (d) the availability of learning and development opportunities provided by employers.

ICPAK new offices

Factors relevant to determining an appropriate level of professional competence to be achieved by professional accountants may include, but are not limited to: (a) the complexity and variety of tasks undertaken by professional accountants; (b) the expectations of stakeholders (such as the public, employers, and regulators) relating to the nature and extent of professional competence; (c) specialized knowledge required by professional accountants working in particular industries; (d) the level of professional judgment required to undertake an assignment or complete a task; (e) the varied roles of professional accountants, such as the preparer of financial statements, tax advisor, or management accountant; and (f) the complexity of the working environment.

Professional accounting education programs are designed to support aspiring professional accountants to develop the appropriate professional competence by the end of IPD. They may consist of formal education delivered through degrees and courses offered by universities, other higher education providers, IFAC member bodies and employers, as well as workplace training. The design of the professional accounting education programs during IPD may therefore involve substantive input from stakeholders other than IFAC member bodies. The principles of assessment apply to individual assessment activities that are conducted during IPD. However, it may not always be possible to achieve high levels of reliability, validity, equity, transparency and sufficiency for each individual assessment activity.

An assessment activity has a high level of reliability if it consistently produces the same result, given the same set of circumstances. Reliability is not an absolute measure, and different assessment activities may have different levels of reliability.

An assessment activity has high reliability if the majority of assessors, acting independently, consistently come to the same judgment, given the same set of circumstances. There are many ways that assessment activities can be designed to increase reliability. For example: (a) the reliability of a written examination may be increased by avoiding the use of ambiguous wording in examination questions or instructions; (b) the reliability of an objective test may be increased by undertaking an internal or external review of the content of the testing before it is finalized; and (c) the reliability of a workplace assessment may be increased by selecting assessors who have comparable high levels of ability, and by providing them with suitable training to enable them to assess the task.

An assessment activity has a high level of validity if it measures what it was intended to measure. Validity is not an absolute measure, and different assessment activities may have different levels of validity. Validity has multiple forms and includes the following: (a) face validity—an assessment activity has high face validity if the assessment activity is perceived to measure what it is intended to measure; (b) predictive validity—an assessment activity has high predictive validity if the content of the assessment activity relates to the particular aspect of professional competence that it is intended to assess; and (c) content validity—an assessment activity has high content validity if the assessment activity provides adequate coverage of the particular aspect of professional competence being assessed.

There are many ways to design assessment activities to increase validity. For example: (a) face validity may be increased when assessing the competence of aspiring professional accountants to apply a particular accounting standard, if an examination includes a comprehensive and relevant case study rather than a simple case study based on incomplete information; (b) predictive validity may be increased for assessing competence in leadership, by relying on a workplace assessment of how well an aspiring professional accountant leads a team rather than relying on the outcomes of a written examination; and (c) content validity may be increased if an examination covers more, rather than a few, aspects of the particular area of professional competence being assessed.

An assessment activity has a high level of equity if it is fair and without bias. Equity is not an absolute measure, and different assessment activities may differ in their level of equity. Equity can be improved when those who design assessment activities are aware of the possibility of bias. There are many ways to design assessment activities to increase equity. For example: (a) equity may be increased by ensuring that assessment activities rely only on computer-based technologies that are available to all aspiring professional accountants; and (b) equity may be increased by reviewing examination papers to remove assumptions relating to cultural knowledge that are not commonly shared by all aspiring professional accountants.

An assessment activity has a high level of transparency when details of an assessment activity, such as the competence areas to be assessed and timing of the activity, are disclosed publicly. A high level of transparency is also relevant when considering the entirety of the assessment activities that are undertaken during IPD. Transparency is not an absolute measure, and different assessment activities may differ in their levels of transparency. Clear and accessible communications to stakeholders may lead to achieving a high level of transparency. Again, there are many ways to increase the transparency of assessment activities. For example: (a) in relation to the entirety of assessment activities that are undertaken during IPD, transparency may be increased by making publicly available a statement that explains the areas of professional competence to be assessed, the types of assessment activities included, and the timing of those assessment activities during IPD; (b) transparency may be increased in a workplace assessment when employers communicate to employees a clearly defined competency framework against which the employees' competence will be assessed; and (c) transparency in the setting and conduct of an examination may be increased by making information relating to the development, scoring, and management of the examination publicly available: this is an area where KASNEB could improve.

An assessment activity has a high level of sufficiency if it (a) has a balance of depth and breadth, knowledge, and application, and (b) combines material from different areas applied to a range of situations and contexts. A high level of sufficiency is also relevant when considering the entirety of the assessment activities that are undertaken during IPD. Sufficiency is not an absolute measure, and different assessment activities may differ in their levels of sufficiency. There are many ways to design assessment activities to increase sufficiency. For example: (a) sufficiency may be increased across IPD by including assessment activities that assess the required technical competence, professional skills, and professional values, ethics, and attitudes (breadth) at the appropriate level of detail (depth); and (b) sufficiency in relation to a workplace assessment may be increased by requiring aspiring professional accountants to demonstrate professional competence across a wide range of professional skills, and professional values, ethics and attitudes that are applied to many different situations.

Verifiable evidence is evidence that is objective, capable of being proven, and stored in written or electronic form. Basing the assessment of professional competence on verifiable evidence may satisfy the needs of third parties who oversee or regulate an IFAC member body. It will also increase the confidence of stakeholders that aspiring professional accountants have achieved the appropriate level of professional competence by the end of IPD. Examples of verifiable evidence include: (a) certificates of successful course completion; (b) recorded outcomes of successful achievement in examinations; and (c) a record of achievement provided by employers on competence achieved by aspiring professional accountants.

You can see that KASNEB and ICPAK fulfil the vast majority of the requirements of IES 6. But Kenyans must be determined to go an extra mile to be winners. Kenya's athletes do an incredible amount of publicity for the country: Kenya is known around the world because of its athletes. But those athletes are world beaters because they train extremely hard: they are not winners because they take a short-cut across the field contained in the track. Education is an important industry in Kenya: is its purpose to make money? Students now sit public examinations twice: the first time following the instructions of their teachers; the second, on their own: why? To win the top prize: should we advocate that our athletes should do the same?

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Credibility . Professionalism . AccountAbility

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A world leader of the accountancy and finance profession

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ICPAK membership requirements for ICAEW members

ICPAK membership will be open to appropriately qualified ICAEW members subject to:

• Passing the Kenya Accountants and Secretaries National Board's (KASNEB) examinations in Advanced Tax and Company Law. To facilitate the above, ICPAK will grant credit to appropriately qualified ICAEW members for the sixteen KASNEB examinations relating to ICPAK membership with the exception of the two papers above.

• On account of well structured practical work framework, ICPAK shall grant ICAEW members credit for experience and skill development requirements for membership.

To facilitate the above, ICAEW will grant credit to appropriately qualified ICPAK members for all papers of ICAEW's Professional Stage examinations but excluding advanced level papers.

The agreed framework under the Memorandum of Understanding provides the platform within which a Kenyan professional accountant can obtain membership in the ICAEW and vice versa. The memorandum of understanding has however precluded granting of audit or practising rights to professionals from either side. Discussions into this area are underway with an expectation to conclude the discussions in the near future.

In specific terms, the memorandum of understanding provides the framework to enable appropriately qualified members of either Institute to join the other institute by receiving appropriate credit for their existing accountancy qualification.

ICAEW membership requirements for ICPAK members

ICAEW has agreed that appropriately qualified ICPAK members will be eligible to apply for ICAEW membership subject to:

• Passing three (3) ICAEW's Advanced Stage examinations on Technical integration Business Change, Technical Integration Reporting and a Case Study based paper;

• Completing a minimum of three years' work experience, including 450 days' of Technical Work Experience (TWE), within a mutually agreed Authorized Training Employer (ATE).

• Verification by the ATE of the completion of Initial Professional Development requirements in accordance with International Education Standards number 2, either through previous development gained at the ATE or through development after the commencement of Chartered Accountant training.