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THE FUTURE OF ACCOUNTANCY

Drivers of change and future skills in Kenya

2018

About ICPAK

The Institute of Certified Public Accountants of Kenya (ICPAK) is a statutory body of Accountants established under by the Accountants Acts of 1978, and as repealed under the Accountants Act Number 15 of 2008, mandated to develop and regulate the Accountancy Profession in Kenya.

ICPAK is a member of the International Federation of Accountants (IFAC), the umbrella body for the global accountancy profession and a member of the Pan African Federation of Accountants (PAFA). ICPAK has transformed itself as the leading professional body of accountants in the East and Central Africa Region. Currently, it regulates a body of close to **23,000** professional accountants spread over the world.

In 1999, ICPAK resolved to adopt the International Financial Reporting Standards a fact that necessitated that the accountancy examinations administered by KASNEB to be structured based on the IFRS platform. This has in effect made it possible the international recognition of the Kenyan professional accountant.

ICPAK members have been effective players in the professional arena at the global most notably in UK, Canada, Australia, South Africa, the Cayman Island and the United States of America. The CPA Kenya has in the past and continues to be a strong brand in the East African region and has taken up the leading role in the development of the profession in the region.

For more information, please visit www.icpak.com

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ACCA (the Association of Chartered Certified Accountants) is the global body for professional accountants, offering business-relevant, first-choice qualifications to people of application, ability and ambition around the world who seek a rewarding career in accountancy, finance and management.

ACCA supports its **200,000** members and **486,000** students in **180** countries, helping them to develop successful careers in accounting and business, with the skills required by employers. ACCA works through a network of **101** offices and centres and more than **7,200** Approved Employers worldwide, who provide high standards of employee learning and development. Through its public interest remit, ACCA promotes appropriate regulation of accounting and conducts relevant research to ensure accountancy continues to grow in reputation and influence.

ACCA is currently introducing major innovations to its flagship qualification to ensure its members and future members continue to be the most valued, up to date and sought-after accountancy professionals globally.

Founded in 1904, ACCA has consistently held unique core values: opportunity, diversity, innovation, integrity and accountability.

More information is here: www.accaglobal.com

Drivers of change and future skills in Kenya

ABOUT THIS REPORT

This report is jointly published by ICPAK and ACCA. It forms part of ACCA's research into the future of accountancy, the drivers of change in the profession and the skills that will be most needed in the future. Key trends in Kenya have been identified by members of ICPAK and ACCA in surveys and roundtables. This report considers what these trends mean for professional accountants, what will be expected of them in future and the value of new and existing technical and interpersonal competencies. These trends include the role of accountants in safeguarding private and public sector organisations, while demonstrating the value provided by the accountancy profession.

Contents

Executive Summary

Kenya has the largest economy in East Africa. The accountancy profession in Kenya has played a key role towards the registered economic growth.

Kenya is held back by not exploiting fully the skills and experience of its professional accountants. Specifically, the quality of financial management within Central Government, the counties and state corporations would be strengthened by greater use of professional accountants. Too often, Kenya's public and private sectors are failing to take advantage of the core competencies of professional accountants. These include effective financial management, reporting and planning; effective use of resources; revenue generation; data analysis; and high standards of corporate governance.

The most pressing challenge for Kenya's economy is to improve corporate governance in the private and public sectors, including state corporations. There is a widespread perception and reality of corruption: the perception and reality need to change for Kenya to take its full and proper place in the global economy. At present, too much of Kenya's wealth is lost from the country through illicit financial flows, while some Kenyan companies have been vandalised by corrupt individuals and their networks. And while unemployment is at all times worryingly high, most Kenyans work in the informal economy and do not fully contribute directly to national wellbeing as taxpayers.

Weak corporate governance sits behind many of the failures in financial reporting, which have seen some of Kenya's largest companies enter financial difficulty, including, in some cases, bankruptcy.

A contributing factor in this corporate governance crisis has been the use of poor skilled book-keepers and 'Accountants' in roles that should be reserved for professional accountants, qualified through a rigorous training and examination process and membership to a reputable accountancy body, such as ICPAK and ACCA. That some of these book-keepers call themselves 'accountants' has brought the accountancy profession into disrepute. Kenya's corporations (and government) must ensure they have effective risk management and decision-making systems. Qualified accountants need to be at the heart of these organisations to prevent wrong-doing and ensure transparent and accurate financial reporting.

Kenya needs its accountants, through professional bodies such as ICPAK and ACCA, to participate in policy development that will strengthen the state's fiscal position and its economy.

Professional accountants must ensure they update their skills to deal with these challenges at personal levels and by participating and attending seminars, meetings and workshops where they are able to earn relevant continuous professional development points. They need to have the capability to strengthen organisations' corporate governance. They must also be fully equipped to deal with the rapidly changing environment in which they operate. The automation of many traditional accountancy tasks means that the role of the accountant is evolving. There is now a much greater need for accountants to have 'softer' skills, communicating the requirement for organisational change and producing narrative context as part of financial reports. Those reports need to consider the need for resource sustainability, as well as financial sustainability and concerns for wider stakeholders. There is an increasing demand for integrated reports, which bring together these elements.

Accountants must equip themselves with the knowledge and skills to address the latest business challenges, such as cyber-security. Accountants need to use social media; be proficient in e-procurement; and develop expertise related to new business models and finance raising, including dealing with crypto-currencies, crowdfunding, Islamic finance and the greater use of asset financing. Kenya needs to make more effective use of data; accountants in Kenya must ensure they have the skills to assist with this through sophisticated data analysis. Kenya needs its accountants, through professional bodies such as ICPAK and ACCA, to participate in policy development to strengthen the state's fiscal position and its economy. Accountants need to sit close to the heart of government, helping with revenue raising, resource allocation and financial management. They need to assist government with strengthening planning for handling disasters, a recurring risk for Kenya. But for the profession to play its proper role, it is also important that the title of 'accountant' is properly regulated and controlled, with backing from state financial regulators such as Kenya's Capital Markets Authority.

About the report

This report is published by ICPAK and ACCA. It delves into the future of accountancy by focusing on the drivers of change in the profession and the skills that will be most needed in the future. Key trends in Kenya have been identified by members of ICPAK and ACCA in surveys and roundtables. This report considers what these trends mean for professional accountants, what will be expected of them and the value of new and existing technical and interpersonal competencies. These trends include the role of accountants in safeguarding of private and public-sector organisations, while demonstrating the value provided by the accountancy profession.

Accountancy in Kenya – the key considerations

The global economic and business landscape is changing at a speed and with an intensity that seem unprecedented. Factors reshaping the world include climate change,

The landscape for business and professional accountants is being reshaped by a host of existing and emerging drivers and trends in business and politics, the economy, science and technology and society's expectations of business.

resource scarcity, geopolitical conflict, slowing growth in China, unpredictable emerging markets, an ageing population with widening inequalities, huge shifts in corporate and political power and the increasing pace of digital innovation – to name but a few. The complexity, variety and interconnectedness of the underlying factors make it impossible to anticipate exactly how these trends will evolve. If professional accountants are to thrive and add value in the future, they will need to develop the skills and competencies that economies and organisations demand. Those in and around the accountancy profession must plan for the expected, the unexpected, the predictable and the unpredictable.

Nonetheless, the profession is well placed to adapt, whatever the future holds. Professional accountants have retained their crucial roles at the centre of many important value chains, and across organisations of all shapes and sizes, by making sure that their particular value-added proposition moves with the times and stays relevant. ICPAK and ACCA have always enabled and supported their members to remain relevant by keeping abreast of the changes taking place in local and global economies, in business practices, and in what is (or what is no longer) needed from professional accountants. This includes identifying the skills and competencies that will be required in future to meet emerging business requirements and to help economies and organisations to succeed and flourish. Defining this has never been more complex than in the current environment.

The particular challenges facing Kenya include: the threat of political instability; a rapidly changing demography; the quality of public sector administration; fluctuations in government revenues; and high levels of unemployment.

The landscape for business and professional accountants is being reshaped by a host of existing and emerging drivers and trends in business and politics, the economy, science and technology and society's expectations of business. Some of the drivers and trends in these areas affect the entire accountancy profession, some affect specific specialist areas and roles, and the extent of their impact and the expected results may vary widely. There will be fewer opportunities for career progression via the mid-tier roles that are becoming automated. Professional accountants who want to rise to the very top of their profession (and those who want to employ them) may need to look far and wide for the necessary mix of technical and interpersonal skills and competencies: the concept of building a 'professional quotient' may be helpful.

PROFESSIONAL QUOTIENTS (PQ)

Our analysis suggests that to add value for their employers and clients, professional accountants of the future will need an optimal and changing combination of professional competencies; a collection of technical knowledge, skills and abilities, combined with interpersonal behaviours and qualities. By 2020, all professional

ICPAK members attending the 39th Annual General Meeting held at Safari Park in June 2017

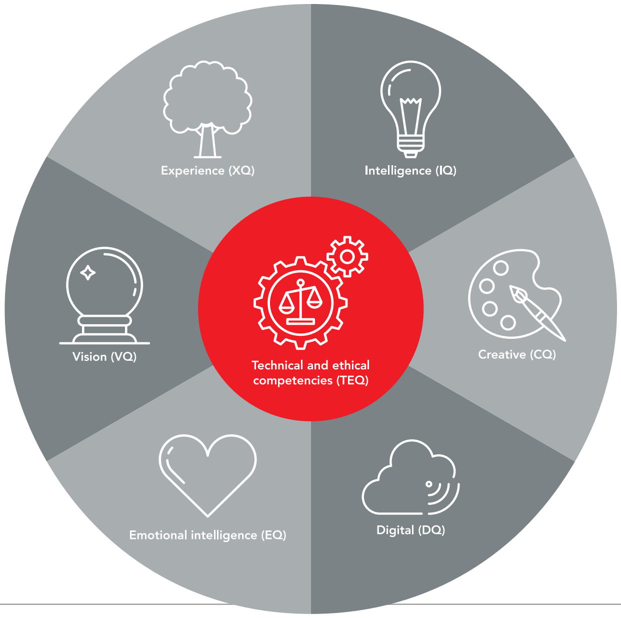
Technical expertise and ethics are, and will remain, vital; over the next decade some types of technical knowledge and some skills will increase in value, others will decrease, and new knowledge and skills will be required.

accountants will need to develop and balance the components of the necessary professional quotients to fit their role and stage of career. Professional accountants of the future will need to develop and demonstrate the ability to combine their technical knowledge, skills and abilities with softer skills concerned with interpersonal behaviours and qualities. Each accountant's professional quotients (PQ) will reflect their competency and skill across seven constituent areas. Technical skills and ethics (TEQ) and experience (XQ) will be combined with intelligence (IQ) and digital awareness (DQ); interpersonal behaviours, skills and qualities will be reflected in quotients for creativity (CQ), emotional intelligence (EQ) and vision (VQ). Just as individual IQ scores can be raised (sometimes significantly) by appropriate teaching, experience, training and development, so too can TEQ, CQ, EQ, VQ and XQ.

Technical expertise and ethics are, and will remain, vital; over the next decade some technical knowledge and skills will increase in value, others will decrease, and new knowledge and skills will be required. What is considered the 'optimal' mix will vary across specialist domains, roles, organisations, industries and geographies (within countries as well as between countries), and it will evolve in response to change.

1. The potential strengthening and increased complexity of regulation and corporate governance

"The lack of checks and balances on the part of state and public officers has led to losses of public funds. Accountants need to come in and enforce mechanisms for proper accountability and responsibility." Roundtable participant.



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Section one. DRIVERS FOR CHANGE

This section explores the drivers and trends that are most likely to shape the practice of accountancy and the role of the accountancy profession up to 2025 and beyond in Kenya. It does this by considering the impact the key trends may have on the future need for professional accountants in Kenya.

1.1 Short term drivers for change

Table One: Which factors might have the largest impact on professional accountants and finance professionals in the short term

1	The potential strengthening and increased complexity of regulation and corporate governance
2	Changes to the global economic and regulatory infrastructure in direct response to the global economic crisis
3	Public perception of the value of the accounting profession and its attractiveness to future accountants
4	Cyber-security challenges
5	Emergence and adoption of new business and production models
6	Social media and its role in business
7	Globalisation v. market protectionism
8	Internet access for the general population, costs & quality of connectivity
9	The increased cost and accessibility of higher education
10	Changes to the quality and availability of the global talent pool
11	The scale and unequal distribution of global population growth and the changing age balance to the workforce
12	Volatile fuel and energy prices
13	The change pace and extent of cultural globalisation
14	Changing public attitudes to capitalism and the capitalist system

Kenya is under pressure to sign up to the highest standards of corporate governance and financial reporting. Weak corporate governance is often the platform for misleading, or even fraudulent, financial reporting. Serious concerns have been raised by Kenya's Capital Markets Authority and ICPAK about the quality of financial reporting by some listed companies. "Fraudulent accounting is a national disaster in Kenya just as corruption has been declared and we need the input of every stakeholder including the police, the National Intelligence Service and the Ethics and Anti-Corruption Commission to curb the vice," said ICPAK Chief Executive Dr. Patrick Ngumi in 2015. Examples of bad corporate governance have led to serious crises in major Kenyan companies, including Imperial Bank, Mumias Sugar, Kenya Airways and Uchumi Supermarkets.

The African Corporate Governance Network (ACGN) has recommended improvements to corporate governance across the continent. It complained that African companies often lack understanding of the basic concept of corporate governance; lack transparency and

> Kenya needs to maintain a high level of economic growth to enable the government to deal with severe social pressures.

accountability; suffer from a high level of corruption at board and managerial level; are subject to out-dated laws; with poor or non-existence of relationships between the board and stakeholders; publish misleading financial statements; and have poor internal controls and a lack of risk management.

ICPAK and ACCA have been in the forefront of improving and strengthening corporate governance in Kenya over a long period. The Capital Markets Authority introduced a stringent corporate governance code with effect from March 2017, which applies to all companies listed on the Nairobi stock exchange, with some parts of the code mandatory and others operating on an 'apply or explain' basis. Parastatal companies must conform to a less rigorous Mwongozo corporate governance code, which uses the 'apply or explain' principle.

2. Changes to the global economic and regulatory infrastructure in direct response to the global economic crisis

Factors in the global financial crisis of 2008 included weak global and national regulation as well as failings in the independence and effectiveness of credit ratings agencies. Since then there has been greater diligence by the agencies and more focus on sovereign debt. Moody's downgraded the Kenyan government from B1 to B2 in February 2018, driven by "an erosion of fiscal metrics and rising liquidity risks". Moody's concluded that the government's financial strength, including its debt profile, had weakened, predicting a rise in government debt and deterioration in debt affordability. Moody's forecast government debt to increase to 61% of GDP in 2018/19, from 56% in 2016/17 and 41% in 2011/12. Interest payments rose as a share of revenue from 13.7% in 2012/13 to 19% in 2017/18. Fiscal and financial management reforms planned by Kenya's government were insufficient, leaving Kenya with a "low level of economic resilience", added Moody's. S&P Global Ratings warned that Kenya could struggle to honour repayments in the event of new economic shocks and said the government should stabilize its debt level. ICPAK has argued that government borrowings should be used only to finance development expenditure, warning that public debt is increasing too rapidly.

Kenya has the largest and strongest economy in East Africa , which is also the fourth largest in Sub-Saharan Africa (behind South Africa, Nigeria and Angola), and the ninth largest in Africa. Despite this, Kenya has serious economic challenges. Gross domestic product (GDP) grew by 4.7% in 2017 , below the Treasury's target of 5.9% , after growth of more than 5.5% in 2016 and 2015 . According to the International Monetary Fund (IMF), growth has been supported by public sector infrastructure investment, favourable weather (which has assisted agriculture) and improved tourism spend.

Kenya needs to maintain a high level of economic growth to deal with severe social pressures. Kenya has a youth unemployment rate of 35%, compared to a general unemployment rate of 10%, and an extra 800,000 young Kenyans enter

The incidence of cybercrime in Kenya is rising fast, alongside the rapidly widening availability of internet provision and increase in the use of mobile phone and mobile payment technologies.

the labour market every year. Some 80% of unemployed Kenyans are under 35. A large proportion of Kenyans live in extreme poverty.

Kenya's economy is orientated to small businesses, with nearly 80% of the country's total workforce employed by SMEs, which contribute just 20% of the nation's GDP. A roundtable participant commented: "Most SMEs cannot afford the services of an accountant." Many companies struggle with financial management, while dealing with a higher interest rate on loans – capped by the government at 4% over base rate – than many competitor nations. There is evidence that because of the cap, the availability of commercial loans has declined, stifling economic growth.

3. Public perception of the value of the accounting profession and its attractiveness to future accountants

Kenya suffers from a global and domestic perception of being victim to bribery and corruption, with this inflicting damage on the public sector and government, as well as business. Kenya was ranked 143rd in the world for corruption, out of 180 countries, in the Transparency International corruption ranking for 2017. There are specific and substantial problems related to illicit financial flows out of Kenya. "Issues of illicit flows are a big concern, not just for Kenya but for Africa," said a participant in ACCA's public sector roundtable. "This can affect both commercial and corporate transactions, particularly in the extractive industry." It is claimed that Sub-Saharan African countries effectively subsidised developed economies by $41.3bn in 2015, through illicit financial flows out of the region. Police investigations have taken place in the UK and Israel in relation to allegations that Kenyan officials were bribed when awarding major public contracts. These factors point to the need for stronger regulation and corporate governance, backed by greater transparency within government, and for professional accountants to play a central role in this.

The risk is that the entire accountancy profession, which is backed by rigorous qualification and discipline, is undermined by the perception of a lack of integrity in parts of financial management. "Integrity of the accountants is questionable in the eye of the public," said a roundtable participant. The International Federation of Accountants (IFAC) has suggested that those "involved in governance in Kenya" must take a lead in tackling corruption in the country.

4. Cyber-security challenges

Kenya has the highest incidence of cybercrime in East Africa, with legitimate businesses, individuals and government suffering a collective loss of $171m in the 2016 year. The incidence of cybercrime in Kenya is rising fast alongside the acceleration of internet provision and in the use of mobile phone and mobile payment technologies. "Cyber criminality follows broadband and Internet penetration," explained Samresh Ramjith, EY Kenya's cybersecurity leader. "As we become more online, these risks and threats start manifesting themselves."
Kenya's government has moved

According to the Communication Authorities of Kenya, there is now 90% internet penetration in Kenya, while smartphone adoption is 44%.

forward quickly in extending internet provision, especially in Nairobi. This fast pace of progress is important for the country's economy, but creates threats if cyber security knowledge and protection does not keep up. "One of the clearest statistics is that this market isn't slowing down from a cybercrime perspective," said Ramjith. "This is growing year-on-year by close to double-digit." A recent review of cybercrime in Kenya explained: "The cyber threats Kenya faces range from basic hacking such as website defacements, financial fraud, social media account hijacking; theft of government documents and cyber espionage." It warned that the frequency of these incidents is increasing, as is the sophistication. Kenya - in particular, its banks, other financial services providers and government - has been specifically targeted by advanced persistent threats (APTs).

One of the biggest risks is to the security of mobile network operators, which provide the backbone of mobile money systems. These are widely used for remittances from overseas, Kenya's main sources of foreign exchange ($1.5bn in the year ending June 2015). The country has been an early adopter of mobile money, with more than 23 million Kenyans using it by 2013. Mobile financial services were by then employing at least a hundred thousand people in the country. "The proliferation of connectivity through affordable Internet has predominantly driven innovation within the technology space and it's no wonder that Kenya is among the leading countries in Africa in terms of cybercrime."

5. Emergence and adoption of new business and production models

Kenyan businesses are increasingly looking at a diverse range of unconventional financing options. "Kenya and East Africa are the market leaders for crowdfunding and alternative financial models across Africa," explained a report from the Judge Business School, part of the University of Cambridge. "In 2015, around $22 million was raised in Kenya [through crowdfunding], with an additional $8.5 million raised in Q1 2016." The market increased by more than 50% year-on-year, with donation-based crowdfunding accounting for two thirds of activity – most probably originating from outside Kenya." However, the World Bank warned: "In a place like Kenya for example, where grant financing is available from multiple sources, crowdfunding may not be the most efficient way to raise capital." There is a lack of specific controlling regulation in relation to crowdfunding in Kenya , though it is subject to more general legislation in relation to money laundering controls.

There is an emerging crypto-currency community in Kenya. By early 2018, two Kenyan companies (Nurucoin and UwezuCoin) had announced launches of initial coin offerings (ICOs). Kenya's Capital Markets Authority is supportive of crypto-currencies, while warning of the risks involved from fraud in their trading." There are concerns about the stability of Bitcoin and other digital currencies, with some central banks (such as the Bank of England) and other regulators (including the European Commission) considering

Social media sites also play a valuable role in helping accounting practices share and acquire knowledge, establish their credentials and extend and maintain their professional network.

new controls and regulations.

Kenya has been posited as a potential African centre for the issuing of Sukuk bonds and other types of Islamic finance. (About 11% of the Kenyan population, 4.3 million people, are Muslim.) The influence of Islamic finance is growing. Islamic financial institutions operate in more than 75 countries and their assets are expected to reach US$3.7 trillion by 2019.

6. Social media and its role in business

"Kenya has been found to be one of the leading countries regarding social media usage in East Africa." According to the Communication Authorities of Kenya, there is now 90% internet penetration in Kenya, while smartphone adoption is 44%. However, usage of social media remains low, perhaps because of poor quality of internet capacity away from Nairobi. "Facebook Audience insights estimate that 4.3 to 5.1 million users visit the platform monthly and 85 percent are located in Nairobi. Mombasa accounts for 3 percent of users, Eldoret and Nakuru account for 0.9 percent each, and Kisumu occupies the 5th position with the user base of 0.6 percent," wrote Noah Miller, managing director of Sochin, a communications and data analytics consultancy in Kenya. There is similar distribution with other social media platforms.

"Many Kenyan companies do not fully grasp the power of social media, how it works, how it fits into their business and the impact it can make," said Miller. Typically (and this is a global issue) accountants tend to focus on the opportunities presented by social media to win clients, through the use of LinkedIn, Facebook, Twitter and YouTube, for example. The challenge for accountants in practice is how to use social media in ways that add value to existing and new clients and, for those employed, for their organisations in the private and public sectors. "Social media sites also play a valuable role in helping accounting practices share and acquire knowledge, establish their credentials and extend and maintain their professional network," explained Wolters Kluker in its commentary on a survey of how accountants use social media.

Examples of how social media can be used to improve the fulfilment of the accountancy role include: research; webinars; online broadcasting of conferences; networking to find international partners and to improve international (and national) partnership working; reducing travel costs by holding meetings online; blogs to share ideas and generate discussion; to learn from best practice; and as contributions to online communities of practice.

The challenge for accountants in practice is how to use social media in ways that add value for existing and new clients, and for their employers by those employed in organisations in the private and public sectors.

1.2 Medium term drivers for change

Table two: Which factors might have the largest impact on professional accountants and finance professionals in the medium term

1	The development of intelligent automated accounting systems
2	Adoption of cloud computing by business
3	Broadening measurement and expectations of business value and demands of external stakeholders - beyond purely financial indicators, including licence to do business
4	The different aspirations and expectations of next generations
5	Data mining and new analytical methodologies as a result of Big Data
6	New enterprise risks (e.g. resource scarcity, increased market volatility, black swan events)
7	Greater harmonisation of global accounting and business standards
8	The creation and valuation of digital assets
9	The rate of change and economic volatility
10	Emergence of new industry sectors and professions, e.g. bio mimicry designers, 3D printing
11	Capitalism next version? Future governing business and market paradigms
12	A change to the typical structures and business models for accounting firms
13	Governance and delivery of outsourced public services including privatization, e.g. health
14	The future of digital publishing and the impact on traditional publishing methods and related implications both direct and indirect for businesses
15	Increasing female participation in the workplace
16	The impact of businesses from BRICS economies on businesses from developed nations
17	Pressure to protect local jobs from foreign workers
18	The influence of emerging financial centres such as Seoul, Mumbai, Dubai
19	Pervasive capturing, storage and access to information
20	Resource conflicts - water, fossil fuels, energy sources, food
21	Rapid, disruptive, climate change

Automation and artificial intelligence (AI) are being considered and adopted by more than half the accountants surveyed by Sage.

1. The development of intelligent automated accounting systems

"Software will be developed to solve complex accounting problems, making the accountant's [existing] role redundant." Roundtable participant.

Providers of accounting software are steadily expanding their product ranges and the capabilities of their software. Automation and AI are being considered and adopted by more than half of accountants surveyed by Sage. These accountants are using automation and AI to reduce repetitive tasks, freeing them to provide valuable consulting and advice to clients. Sage found that 42% of accountants' clients expect their accountant to provide business advice, encouraging accountants to review how they can lighten their administrative burden to automate repetitive and time-consuming tasks. Sage's global study found that 66% of accountants would invest in AI to automate repetitive and time-consuming tasks, while 55% of accountants plan to use artificial intelligence to run their business better. Commenting in March 2018, Kriti Sharma, VP of AI at Sage, said that "accountants will be able to scale their operations by using AI to review millions of transactions that would have traditionally taken hours to do manually – spotting anomalies and making recommendations."

A software company based in Germany is going further by using AI to provide a more automated and integrated accounting and financial reporting system for small firms, with receipts converted into machine readable form and automatically allocated into the correct records system. Through machine learning, the system automatically improves its accuracy, including for invoice management.

2 Adoption of cloud computing by businesses

"Most businesses are shifting to online platforms piling pressure on various players in the market to adopt new technologies in meeting the expectations of their clients and customers." Roundtable participant.

Cloud based accounting is now widespread. A March 2018 article explained: "A recent survey indicates that among the enterprises planning to opt for enterprise resource planning solutions; more than 50% of them are expected to choose cloud as their deployment mode. Agility, lower start-up cost, and faster deployment are the major benefits of cloud-based solutions. Additionally, the advent of digital commerce and technological advancements, like integration with other online applications, such as automated bank feeds, automated billing features, etc., are expected to drive the accounting software market over the forecast period."

One risk with cloud accounting is the prospect of industry consolidation, which could lead to a lack of choice in provider and the possibility of an abrupt end of supply arrangements if a provider ceases trading. These risks need to be managed. Forrester has predicted that Amazon, Google and Microsoft will increasingly dominate the cloud platform market, and together, it suggests, they will capture 76% of cloud platform revenue in 2018, rising to 80% by 2020. It is possible that owners of cloud platforms will seek to dominate in the provision of cloud-based services, such as cloud accounting.

Younger accountants expect a more flexible and rewarding work/life balance than did many of their predecessors.

3. Broadening measurement and expectations of business value and demands of external stakeholders beyond purely financial indicators including licence to do business

"Accountants will have the space to be innovative and come up with better ideas that resonate to the changes in the market." Roundtable participant.

Approaches to business value are changing. The focus of some investors on short term profit, rather than longer term value has been damaging. Some governments and regulators around the world are keen to shift the focus onto longer term sustainability and value. This perspective is shared by ICPAK and ACCA.

An ACCA report explained: "Over the last two decades the number of organisations working to address their sustainability impacts has increased significantly. This increase can be attributed to a number of factors, including a broader understanding and acceptance of the links between economic activity and global sustainability issues; a recognition of the risk-management and economic benefits that organisations can gain from integrating sustainability into their strategies; and a growing demand from stakeholders, including investors, customers, employees and NGOs, for organisations to manage their operations in a more sustainable manner. A minority of governments and regulators have also driven this trend by requiring companies, especially listed companies, to address their environmental and social impacts and to report on their practices."

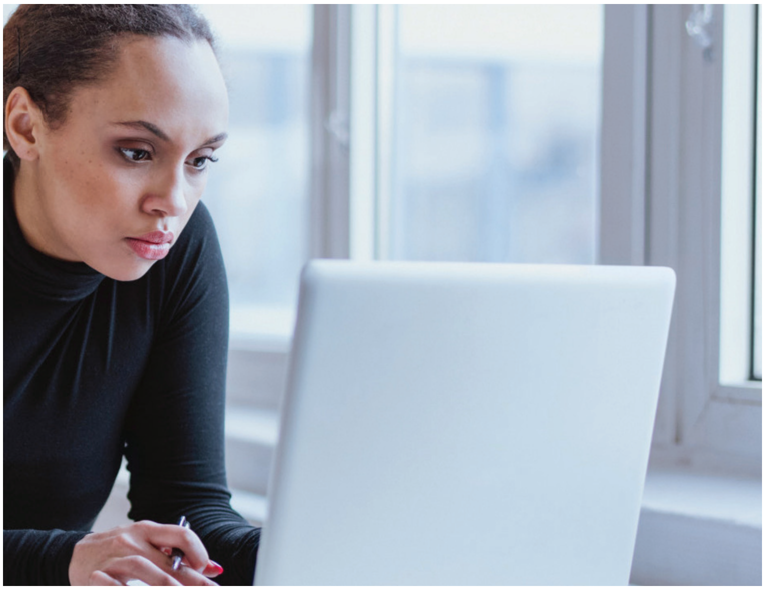
Moves towards integrated reporting are an increasingly accepted approach to bringing together the various concerns about organisational sustainability and of environmental and social reporting – which themselves can have substantial financial implications for a business. "The primary purpose of an integrated report is to explain to providers of financial capital how an organisation creates value over time. An integrated report benefits all stakeholders interested in a company's ability to create value, including employees, customers, suppliers, business partners, local communities, legislators, regulators and policymakers, although it is not directly aimed at all stakeholders."

Some types of business – for example, miners – may find their ability to win licences curtailed if they do not conform to best practice on sustainability and social justice. Veolia has had water and electricity supply contracts cancelled by the government of Gabon after being accused of environmental damage. (Veolia denies the allegations.) Challenges to Exxon over disclosures on the valuation of oil reserves in the context of the potential impact of climate change demonstrate the connectivity of environmental and financial sustainability issues.

Agricultural sustainability in Kenya has been threatened by both droughts and flash flooding, which are often attributed to global climate change. Kenya is suffering other severe impacts from climate change, including the drying up of the world's largest desert lake, Lake Turkana. As the water evaporates and the lake shrinks, so its salinity rises and threatens the survival of fresh water fish – an important food source for the local population.

4. The different aspirations and expectations of next generations

The lack of sustainability within many traditional business models is influencing approaches to business management and encouraging a more ethical attitude among younger generations – the next generation of accountants and senior partners in accountancy firms.



There are strong demands on Kenya to use data more effectively, in order to ensure that aid is distributed efficiently and for use in evidence-based political decision-making.

ACCA's study, 'Professional Accountants – the Future: Generation Next' , reported the results of a large global survey of younger accountants and other finance professionals, aged 16 to 36. It explained: "This survey suggests Millennials in the accountancy profession are well equipped to deal with change driven by technology and globalisation. They have a global outlook, often expecting to work in another country in their next role or at some time in their careers. They are technologically savvy and technology holds little fear for them. Work-life balance and a variety of experiences are important to them and they will switch jobs quickly to attain what they want from their careers."

Younger accountants expect a more flexible and rewarding work/life balance than did many of their peers. They do not expect a job for life; they recognise they must work in collaboration with technology; and they know they will have to adapt repeatedly during their working lives, which means that experiential learning will be part of their working life.

5. Data mining and new analytical methodologies as a result of Big Data

There are strong demands on Kenya to use data more effectively, in order to ensure aid is distributed efficiently and for use in evidence-based political decision-making. Allegations of the use of data to influence elections in Kenya illustrate both the opportunities and dangers of Big Data.

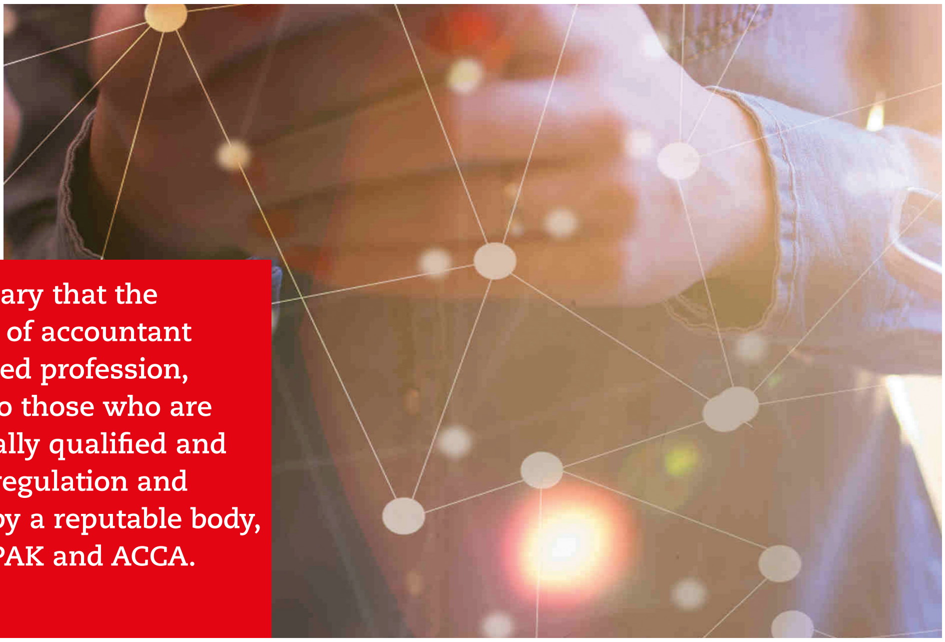
Alex O. Awiti, director of the East Africa Institute at Aga Khan University, questioned why African nations are behind other countries in terms of human development, suggesting that more effective use of Big Data creates opportunities to catch up. "The unique combination of big data, the associated analytic and design thinking, offer new ways to think about and solve big problems in areas such as health, education, agriculture and urbanisation. Furthermore, the eruption of social media is also opening novel ways that enable a human-centred approach to policymaking."

"Big data and design thinking allow us to arrive more efficiently at verifiable problem diagnosis. Big data and design thinking provide a basis for defining and coordinating stakeholder engagement. More importantly, big data and design thinking provide leverage for experimentation and rapid prototyping and testing policy solutions before full-scale implementation. One of the biggest failures of current policy framing is the naïve belief that there is a linear path between policy objectives and policy outcomes. The challenges we seek to address through policy are inherently wicked. Big data and design thinking will enable the policy community to grapple with complexity and uncertainty throughout the policy cycle."

6. New enterprise risks, including resource scarcity, increased market volatility and black swan events

Kenya has relatively limited natural resources of its own to export and is vulnerable in the international competition for limited natural resources. Kenya is dependent on imported commodities, contributing to high inflation rates when global commodity prices rise.

Energy policy is a particular challenge for Kenya. There are promising signs of an expansion in the use of alternative energy sources by business encouraged by Kenya's narrow dependency on hydroelectricity, the largest domestic source of electricity. This dependence creates acute difficulties during periods of drought, leading to reliance on energy importation and serious



It is necessary that the occupation of accountant is a protected profession, restricted to those who are professionally qualified and subject to regulation and discipline by a reputable body, such as ICPAK and ACCA.

risks in terms of Kenya's economy, social tension and relationships with neighbouring governments. Building alternative energy sources and strengthening distribution systems are essential. "Kenya has identified energy as one of the critical foundations and enablers of a socioeconomic transformation envisioned for the country." Key barriers inhibiting the expansion of Kenya's renewable energy sector include economic and financial limitations, insufficient technical and human capacity, and social constraints.

Attempts at strengthening Kenya's energy independence create new risks. Kenya is seeking to develop its first nuclear power plant by 2022. But some nuclear energy programmes around the world have hit serious problems, leading to occasional moratoriums on the use of nuclear power. Oil reserves found in the Lake Turkana region mean that Kenya may become self-sufficient in oil production; assisting with its economy, but potentially damaging both the global climate and local environmental conditions. The marine environment and the local weather system are also threatened by plans for new coal-fired electricity generation.

Kenya has an unhealthy economic dependence on Europe, which makes the country vulnerable to that continent's economic problems. An article by Wolfgang Fengler, published by the World Bank, explained: "Kenya has a structural weakness in exports, especially in manufacturing, which is mainly due to infrastructure constraints, notably the poor performance of the port of Mombasa. This weakness could hurt Kenya during times of global crisis because it still depends too much on traditional exports such as the 'big three': tea, tourism and horticulture. Together they make up more than a third of Kenya's total exports, and generate around US$ 3bn in foreign exchange. They are also an important source of employment. But while Kenya has started to look east to sell its products, it still depends on the North to a large extent. About a third of Kenya's exports are sold in Europe."

1.3 Long term drivers for change

Table Three: Which factors might have the largest impact on professional accountants and finance professionals in the long term

1	Changing societal expectations and the evolving scope and nature of what is considered accounting and the role of the accountant
2	Changes in the direction for global governance and roles and influence of emerging global powers, regional and global institutions
3	Use of cash for financial transactions versus a cashless society
4	Advances in brain science - e.g. augmentation of our mental capacity and memory, direct computer interfaces to the brain
5	The use of carbon taxes , cap and trade policies and other environmental market mechanisms to encourage more environmentally sound behaviour and provide the funds to finance
6	Changes in the global reserve currency from the US dollar to a different currency

There is significant political pressure for country-by-country reporting to be accepted as a global approach, in order to tackle tax avoidance by large corporations.

1. Changing societal expectations and the evolving scope and nature of what is considered accounting and the role of the accountant

Accountancy is standing on the edge of enormous change. The phrase 'number cruncher' will become even more inappropriate as we enter the era of Big Data. Machines increasingly will not only crunch the numbers, but also analyse them. The role of the accountant will be to communicate their meaning and to use the figures to plan the future for organisations and government.

Ethics will play an ever more essential part in the make-up of the professional accountant. This is particularly important in Kenya. As we have explained above, the occupation of 'accountant' has been treated with unfair disdain amongst many people in Kenya, because unqualified individuals who use the word in their job titles are held responsible for much of the corruption in the country. It is necessary that the occupation of accountant is a protected profession, restricted to those who are professionally qualified and subject to regulation and discipline by a reputable body, such as ICPAK and ACCA.

Merging together the ability to financially plan; understand financial information; predict trends; act ethically; and to use data analytics effectively will be the platform for the future of the accountancy profession in Kenya and globally.

2. Changes in the direction of global governance and roles and influence of emerging global powers, regional and global institutions

The global financial crisis of 2008 demonstrated the weaknesses of some of the national and international financial institutions and the organisations on which they rely. Central banks failed to properly regulate and control some banks, which were guilty of reckless and in some instance fraudulent activities. Credit ratings agencies were shown to have been unreliable in their assessment of some products – such as collateralised debt obligations and credit default swaps – and not to be sufficiently independent from the companies they rated.

Meanwhile, central governments have suffered from declining corporate tax revenues – just at the time, for some of them, that they had to deal with the costs of dealing with banking failures. This led the OECD to develop BEPS. While the OECD is not formally a body of global governance, through the backing of the G20 and the threat of international sanctions on states that fail to meet its approved standards on tax policy, BEPS is increasingly being adopted as if it is a global regulation.

There is significant political pressure for country-by-country reporting to also be accepted as a global approach, in order to tackle tax avoidance by large corporations. The adoption of country-by-country reporting practices in Kenya and other African countries has the potential to reduce the level of illicit financial flows that are held responsible for restricting economic development, despite the resource wealth across much of the African continent.

3. Use of cash for financial transactions, versus a cashless society

Kenya leads the world in the use of mobile money. M-Pesa is a mobile wallet system that enables money transfers between wallets and has a mass subscription base, with more than half of Kenyan adults a member of the system. "The system was launched by Vodafone's

Kenya has less difficulty in meeting carbon emission targets than many richer countries because of its existing dependency on hydro-generated electricity and its commitment to nuclear and renewable energy sources.

Safaricom mobile operator in 2007 as a simple method of texting small payments between users. Today there are 30 million users in 10 countries and a range of services including international transfers, loans, and health provision. The system processed around 6 billion transactions in 2016 at a peak rate of 529 per second," reported CNN. According to the Guardian, while there are 28 million phone lines registered for M-Pesa, there are more than 36 million accounts registered with the provider.

M-Pesa can be used to apply for loans, which can be transferred over the system. But many people operating in the informal economy continue to be paid in cash. Nor is it universally popular, as it can be slow and clumsy to use. But the system is likely to become more heavily used, including as a method to transfer international remittances.

It is perhaps too soon to accurately predict the development of crypto-currencies. Bitcoin, in particular, has proven popular as a speculative investment and for some types of transactions, including for some illegal activities. The Central Bank of Kenya has warned about investing in Bitcoins for speculative purposes. Despite this, there is growing interest in Kenya in crypto-currencies, with advocates citing two significant advantages: it may protect value against a national currency that is devalued by inflation and it can assist cross-border trade in Africa, which is especially important given the artificiality of many international borders.

4. Advances in brain sciences

Brain science offers the opportunity for executives to work with psychology and related disciplines to improve individuals' work capacity, thereby increasing productivity. As we better understand how the brain works, we become better able to adjust the working environment to make the most of individuals' skills and knowledge. There is also research into the use of human implants to strengthen the relationship between human and artificial intelligence.

Developments in brain science offer opportunities to improve the treatment of many degenerative diseases. In doing so, they may also extend individuals' capacity to work into older age. There are a variety of both positive and negative implications to this – risks include increasing wealth inequality and youth unemployment. (If older people work for more years, this may reduce the number of jobs available to younger people.) On the positive side, it might reduce poverty amongst the elderly by enabling people to work for more years.

5. The use of carbon taxes, cap and trade policies and other environmental market mechanisms to encourage more environmentally sound behaviour and provide the funds to finance

Kenya has less difficulty in meeting carbon emission targets than many richer countries because of its existing dependency on hydro generated electricity and its commitment to nuclear and renewable energy sources. But there is a tension between Kenya's projected level of economic growth and its energy provision capacity. "Kenya [has] estimated it will need $40bn over the next 15 years, some of it in the form of foreign

For sustainable development, several measures including improvements in energy efficiency, switching to renewable sources of energy, stockpiling energy, enforcing air protection and a carbon tax may be urgently required.

aid, to fully implement its climate mitigation and adaptation plans." However, its susceptibility to climate change – through drought and flooding – means that Kenya may need to move beyond existing carbon emission reduction targets to mitigate climate change.

An academic study concluded in relation to Kenya: "For sustainable development, several measures including improvements in energy efficiency, switching to renewable sources of energy, stockpiling energy, enforcing air protection and a carbon tax may be urgently required."

A study by ICPAK on taxation predicted a carbon emissions tax is likely to be considered by a future Kenyan government. The report referenced global trends towards consumption taxes, including energy taxes. It explained: "The carbon tax burden would fall most heavily on energy-intensive industries and lower-income households. Policymakers could use the revenue to offset the impact of the gases, invest in clean energy, and climate adaption or for other uses. Carbon emission tax could raise a substantial amount of revenue while still helping in the eradication of global warming."

Kenya has joined with Japan and Ethiopia in a partnership to develop carbon reduction projects under its Joint Crediting Scheme. This could lead towards a carbon pricing initiative.

6. Changes in the global reserve currency from the US dollar to a different currency

The US dollar has been the global reserve currency since 1944. But there is no certainty that it will remain the reserve currency. Other currencies widely accepted include the euro and the yen, with the Chinese yuan increasingly used as an internationally accepted currency.

United States foreign and trade policy are unusually unstable at the present time. The United States has initiated penalty tariffs on some Chinese goods and has threatened to do the same against some European goods. The United States has also indicated its willingness to take action to manipulate the international value of the dollar as part of his desire to make the United States more competitive and to reduce its trade deficit. It is impossible to predict the medium and long term impacts of these policies, but it is not inconceivable that they could lead to the dollar losing its position as the pre-eminent global currency and as the global reserve currency. In this case, the yuan might conceivably become 'the' (or 'a') reserve currency. Alternatively, if crypto-currencies take-off then there might be a decline in the role of traditional 'hard' currencies.

Future skills

Section two. FUTURE SKILLS

2.1 Corporate governance and ethics

"Accountants need to come in and enforce mechanisms for proper accountability and responsibility." Roundtable participant.

"Every accountant should be an ambassador for the profession." **Roundtable participant.**

Corporate governance tops the list of competency areas where specialist skills will be most important over the next five to 10 years in Kenya. Professional accountants apply relevant knowledge, skills and professional judgement to carrying out a range of roles in relation to governance, internal control, internal and external audit, compliance and the management of risk, while abiding by professional and corporate ethical frameworks. Organisational corporate governance involves companies' arrangements for governing boards and management, and their relationships with stakeholders, and provides the structure through which the objectives of the company are set and the means of attaining those objectives and monitoring performance are determined.

IFAC has pointed out that a study by the Centre for Economics and Business Research demonstrated a correlation between the number of accountants in a workforce and better outcomes in Transparency International's global Corruption Perceptions Index. Those in and around the accountancy profession must prepare for a future where governance and risk management is focused beyond compliance requirements and procedures, as expectations become more holistic, more dynamic and more integrated than at present. Governance and risk structures, processes and relationships will become more challenging technically, practically and ethically. Professional accountants want globally applicable best practice guidance on corporate governance, risk management and the associated internal and external reporting.

The ICPAK/ACCA roundtable discussion comments included the need for regulators and professional accountancy bodies to demonstrate a commitment to fight corruption by "setting the tone from the top". There were also calls for whistle-blowing mechanisms to be established to encourage employees to monitor and report instances of corruption to the relevant agencies.

Big Data and data analytics present major opportunities for improving the effectiveness of government and aid spending in Kenya.

2.2 Transformative leadership

"Accountants must be the solution providers to the problems that the industries face." Roundtable participant.

ICPAK and ACCA research has highlighted an urgent need for those in and around the accountancy profession to assess existing and emerging technologies for their potential impact on business strategy, business models, delivery mechanisms, supply chains and customers – and to take leadership roles in order to plan accordingly. These trends are accompanied by the need for finance professionals to be more outward looking and forward looking. This is reflected in the competency areas where professional accountants believe that many are currently lacking skills that will be important in performance management and strategic planning over the next five to 10 years.

Voluntary reporting on CSR and governance will lead to widespread global adoption of a framework to integrate CSR with financial reporting, but this is not expected to happen before 2025. Professional accountants expect the heightened focus on ethical issues to create new areas of risk by 2020–25. Professional accountants in Africa have expressed concern over ethical 'grey areas' in financial management, which are created by cultural differences. As more complex and multifaceted financial management processes are automated, some knowledge, skills and abilities (such as bank reconciliation and historical data analysis) may disappear – along with the technical expertise needed to challenge what comes out of IT systems.

2.3 Use of technology

"Technology has taken away the first level jobs, leaving most professionals with no choice but to update themselves with the relevant technology." Roundtable participant.

Accountants need to strengthen their technical skills to be proficient with cloud systems, backed-up by in-depth awareness of cybersecurity and the potential of automation and AI. Professional accountants have a clear and central role in tackling cybercrime, as part of a broader requirement for them to understand, and properly use, the latest business technologies. Fayez Choudhury, IFAC's then CEO, said in 2017: "For accountants to serve their clients, themselves and their employers in the financial arena, that involves technology development: how you collect data, how you process it, how you store it, how you use it. And, if you're an auditor, the whole audit landscape is shifting. Work that we once did to maintain a company's accounts is now highly automated, so you have to move up the value chain and be responsive to those changes."

Cyber security should be a priority concern for accountants. David Reynolds, CEO of the International Association of Accountants Innovation and Technology Consultants, explained: "The reality is that there's no one explaining IT security to small and medium businesses. [There is a] huge opportunity for accountants to provide new services [to] … engage with clients and have sensible discussions about information security."

ICPAK and ACCA believe that accountants, whether working in business, in public practice or the public sector, have an important role to play in making organisations more accountable in the pursuit of sustainable development.

2.4 Data analytics

"Data is the foundation of improving accountability and governance," said Kenya's former president Mwai Kibaki in 2011 when he officially launched the Kenya Open Data Initiative (KODI). "In Kenya the information is there, but is not always made available… as accountants we need to make informed decisions based on data, based on facts and that can be done only if we are able to analyse data properly," said a Kenya public sector roundtable participant.

Big Data and data analytics present major opportunities to improve the effectiveness of government and aid spending in Kenya. Aid agencies complain that they lack reliable and accurate information on poverty and other deprivation indicators, preventing them from acting in the most effective way possible.

"In Kenya, both county as well as national governments are key in fighting inequality and poverty reduction, but county governments particularly are experiencing huge gaps in terms of data collection, the open availability of data and analysis for evidenced-based decision-making," said the Developments Initiative agency. "Additionally, some non-official actors such as NGOs face difficulties in accessing, analysing and using data to support national and county governments in development work.... The production, sharing and use of quality data is widely acknowledged as a key prerequisite to achieving the 2030 Agenda for Sustainable Development and the 17 Sustainable Development Goals to ensure no one is being left behind. Sustained capacity building for citizens, especially at the grass-roots level, is essential to encourage data use for driving improvements in service delivery from government and the private sector."

There is also a weakness in the use of data in the private sector. A survey conducted by the International Data Group for IBM found that just 34% of firms surveyed in Kenya are planning Big Data projects, while a mere 14% have Big Data projects underway; this is substantially below global levels. The survey also found low levels of employer training to prepare staff for Big Data. Kenya has been described by IBM as facing difficulties because of its immature cloud technology systems and market.

2.5 Contributing to sustainable development goals

"Accountants need to contribute to SDGs through sustainability accounting and reporting."
Roundtable participant

Accountants need to play a central role in the achievement of sustainable development goals (SDGs). Helen Brand, CEO of ACCA, explained: "Implementing strategies to deliver the SDGs will engage the accountancy profession at many levels. Driving investment to build the physical and institutional infrastructure that will recalibrate business, finance and government activity around the SDGs will require both the robust technical skills and sound ethical judgement that the accountancy profession around the world is well placed to deliver. From more effective use of data and reporting that meets the evolving demands of finance and wider stakeholders, to designing new business models that take advantage of opportunities that the SDGs present, professional accountants will be central to delivering this critical agenda that will be the new engine of global growth – now and into the future." Specific challenges for Kenya in its drive to achieve SDGs include

Kenya's government particularly needs the expertise provided by professional accountants in designing tax strategies, and maximising, and managing fluctuations in, tax revenues.

inadequate disaggregated data, high stakeholder expectations and inadequate funding.
Understanding corporate needs and different perspectives is vital in supporting the development of useful reporting standards. But – as a joint study between ACCA, KPMG and Fauna & Flora International has concluded - more could still be done by the accountancy profession, including through greater integration of natural capital issues into mainstream decision making, accounting and advisory work and by helping colleagues to improve their understanding of natural capital.

ICPAK and ACCA believe that accountants, whether working in business, in public practice or the public sector, have an important role to play in making organisations more accountable in the pursuit of sustainable development. At the international and national levels, it will be necessary to develop new metrics and measurements of progress that look beyond economic output to factor in non-traditional measures such as human well-being and natural capital.
Accountants working within both the public and private sectors will need to develop methodologies to address factors such as these, since their effective management is critical to the health of the planet, and society as well as to individual businesses.
Natural capital impacts and dependencies, risks and opportunities are being seen increasingly as potentially material issues that businesses and investors should manage. This has direct relevance for the accountancy profession. Not only can members of the profession play a part in developing common approaches to natural capital accounting, but they can also help to embed its application in business decision making. Such participation is already taking place, and presents a real opportunity to improve performance in relation to natural capital. Indeed, the participation of accountants is invaluable because of their professional expertise and their influence within business.

2.6 Disaster management

Kenya is vulnerable to natural disasters and prone to domestic conflict. There has been repeated incidence of droughts and famine, as well floods and mudslides.
The natural topography makes the country especially vulnerable to extreme weather – which climate change will make more common. Arid and semi-arid land covers about 89% of the land, which is home to about 36% of the population. Historically, international aid has played an essential role in dealing with Kenya's natural disasters. But a 2014 upward revision of Kenya's GDP means that aid may flow less generously in the future. In the first half of 2016, international donors committed or contributed $85m of humanitarian assistance.

The abstract of the academic study 'Profiling disasters in Kenya and their causes' explains: "About 70% of the disasters [in Kenya] are hydro-meteorological in nature, particularly droughts and floods. Other common disasters include road accidents, fire tragedies, collapsing buildings and disease outbreaks. Poverty has been referred to as the spring board of many disasters in Kenya. Poverty has led to emergence of vices such as corruption, ignorance of law, political manipulation, inadequate resources and destruction of environment which leads to climate change. Culture and beliefs have also been associated with vulnerability to disaster risks. Therefore, to reduce the risks wealth creation will be vital for the country."

There are clear indications that financial management in both the private and public sectors in Kenya needs to be strengthened.

There is a persistent risk of political or communal violence in Kenya, which might at points reach disaster proportions. Kenya's current political situation is unstable. Political tensions are made worse by the prevalence of guns in Kenya – a 2012 report estimated the presence of 600,000 small arms in the country. Kenya is also vulnerable to incursions from neighbouring territory and the sea.

2.7 Demonstrating value

"We need to raise the level of accountants to a strategic level – not just as book keepers, but enhancing bargaining power through engaging in socioeconomic and policy issues." Roundtable participant "Functions that need to be performed by accountants should be a preserve of qualified, regulated and practicing accountants."

It is necessary for professional accountants to demonstrate their value. Kenya's private sector is dominated by small firms, many of which are strapped for cash. Even though the greater use of qualified accountants would improve the quality of financial management in SMEs and assist in them achieving much higher rates of growth, SMEs feel they cannot afford professional support.

A survey by ICPAK found that only 16 county governments employ qualified accountants, with the rest engaging unqualified book keepers. Auditor-General Edward Ouko indicated that this weakness led directly to poor financial management. "As a result of lack of financial management skills, most of the counties are facing problems on management of public resources," he said. It also made the role of auditors of public bodies more difficult, as they faced challenges in obtaining the information they needed. There is a recognised need to strengthen internal audit systems within state bodies. ICPAK's former chairman Fernandes Barasa said: "Our association has 20,000 members who are qualified accountants. Therefore, the counties should employ some of our members to address the rot in financial management." ICPAK has called for the public sector to adopt a new scheme of service that will include a non-practising allowance for qualified accountants who forego practising rights, as is already the case for professional lawyers and medical staff.

The government has been unwilling to match the pay a qualified accountant would earn in practice. This is despite qualified lawyers and medical practitioners receiving an allowance to recompense them for the loss of earnings they would have received in private practice. In addition, some appointment processes in Kenya have lacked rigour and the use of objective criteria.

2.8 Generating revenues

"Declining revenues prove the need for the active involvement of accountants in service delivery and economic development initiatives." Roundtable participant.

Professional accountants play a central role in businesses and public bodies in generating revenues. One roundtable participant commented: "Declining revenues provoke the need for active involvement of accountants in service delivery and economic development initiatives." This may involve more effective use of data analytics (see above) to understand opportunities for higher revenues in both the private and public sectors.

Kenya's government particularly needs the expertise provided by professional accountants in designing tax strategies, maximising tax revenues and managing fluctuations in tax revenues. Kenya is currently seeking to expand its tax revenue base to rebalance its budget. "Over the past 6 years, government spending has grown

As the country embarks on capital intensive development projects in a bid to achieve the middle income status; there is need to strengthen its capacity to raise revenue.

at an average of 14.7 percent, yet revenue growth has only increased by 12.7 percent."

Concern over the stability of the national revenue base is a factor recognised as one of the country's drivers for change in the public sector. Those concerns have grown since a change in statistical modelling in 2014 meant that Kenya's GDP was 'rebased' to take it from a low income to middle income definition. The result of this may be a reduction in international aid.

Government revenues have been inconsistent and appear over-dependent on income tax. The IMF has urged Kenya to cut its fiscal deficit, which was 9.6% of GDP in the 2016/17 year. "As the country embarks on capital intensive development projects in a bid to achieve the middle income status; there is need to strengthen its capacity to raise revenue", said ICPAK. "A good fiscal management system ensures that there are stable revenues over time."

2.9 Financial management expertise

Efficient and effective financial planning, financial control and financial decision making are crucial if organisations are to create and protect value and achieve their objectives. Political instability, volatility in currency and commodity markets, growth of emerging markets, constraints on credit availability, rapid changes in technology, and a broadening of business risk exposure are among factors creating a complex and uncertain climate. Also relevant are the 2007–08 global financial crisis, and heightened stakeholder focus on sustainable wealth creation, with a more equitable balance between the pursuit of growth and profit, its long-term sustainability, and appropriate organisational controls. Strong financial management is vital, but increasingly difficult to ensure.

ICPAK and ACCA research suggests that financial management will become more difficult over the years to 2025. Future developments in local and global economies, the business environment, politics and law, society and technology are expected to reshape the roles and responsibilities of professional accountants in financial management and extend the scope of the subject matters they deal with. There are clear indications that financial management in both the private and public sectors in Kenya needs to be strengthened. There has been an increased rate of businesses unable to service their loans, from Sh212bn to Sh259bn during 2017 – representing a rise in the ratio of non-performing loans to gross loans from 9.1% to 10.56% in the year. Academic studies have urged SMEs in Kenya to move towards more structured and effective systems of financial management. One of these studies of manufacturing SMEs in Nairobi found that "55% do not have a formal accounting system and 74% prepared financial statements without a qualified accountant".

2.10 Islamic finance

The influence of Islamic finance is growing. Islamic financial institutions already operate in more than 75 countries worldwide, and their assets are expected to reach US$3.7 trillion by 2019. Islamic financial management is high on the list of areas where technical skills and management competencies are currently considered lacking.

By 2020, many accountants expect basic knowledge of Islamic finance, Sharia compliance, Islamic political economy, Islamic capital markets, and risk issues in Islamic finance, to be necessary for all financial managers. Some financial managers will become specialists in Islamic finance. Islamic financial management is high on the list of areas where technical skills and management competencies are currently considered lacking in ACCA's global survey of the profession.

ICPAK Chairman FCPA Julius Mwatu, the Controller of Budget FCPA Agnes Odhiambo together with ICPAK council members discussing policy issues on Budget implementation

Policy development

Section three. POLICY DEVELOPMENT

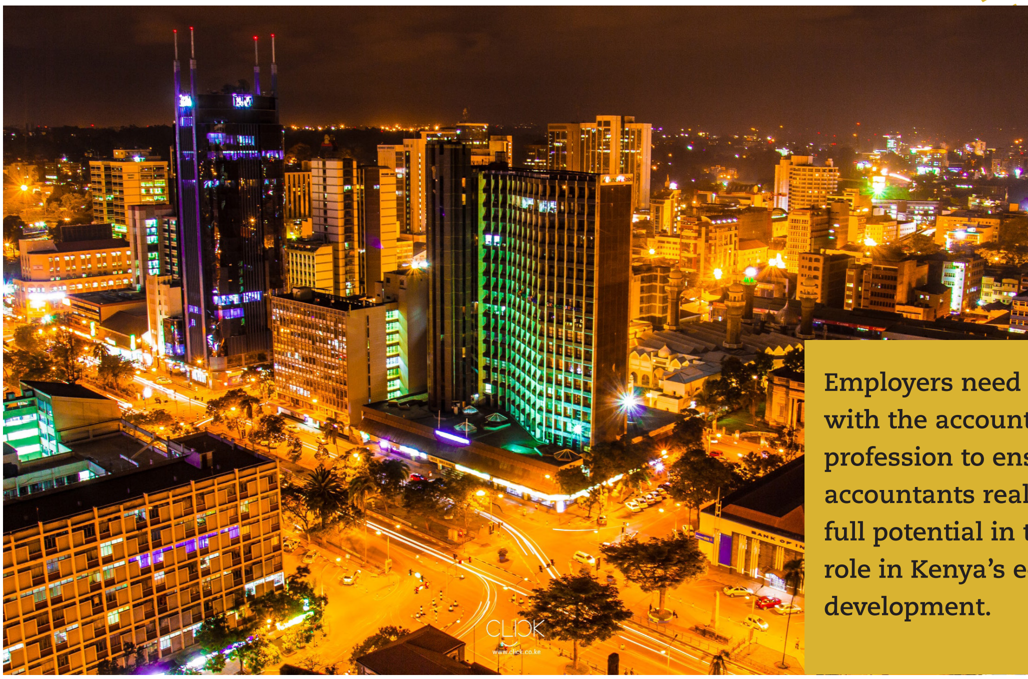
3.1 Government

This report contains concerns expressed by professional accountants that they are not sufficiently valued in Kenya, in terms of the recognition of the value added that they offer to businesses and government. Despite this, there is an opportunity for Kenya to underline its role as the largest and most dynamic economy in East Africa by exploiting the quality of the country's accountancy profession and financial management. Kenya's economy is heavily reliant on professional accountants and the skills and knowledge they provide. The government of Kenya should recognise this by involving accountants in the formulation of its economic development and investment strategies.

That opportunity should be backed by even stronger regulation of the accountancy role. Specifically, Kenya is blighted by the presence of individuals who use the job title 'accountant' without having the necessary skills or ethical conduct to properly undertake that role. The occupation of 'accountant' needs to be protected in law and reserved for those who are recognised by a reputable accountancy institute, such as ACCA or ICPAK. It is also necessary for the accountancy institutes to continually enforce discipline, as is recognised by ICPAK. Roundtable participants were clear that this focus must intensify.

The government should also embrace the necessity of using professional accountants to undertake key financial management roles in government, county government, the wider public sector and state corporations. These key roles need to be reserved for professional, qualified, accountants. Those roles also need to be paid at realistic levels to recognise the value added provided by qualified accountants. Payments are made to professional lawyers and medical doctors employed by government to reflect their loss of earning capacity in private practice: the same should apply to qualified accountants working in the public sector.

Kenya's government should promote the use of professional, qualified, accountants in the private sector, too, including SMEs, recognising the value added provided by accountants. The greater use of accountants by businesses will lead to significant improvements in financial management in the private sector. This, in turn, will strengthen and



> Employers need to work with the accountancy profession to ensure that accountants realise their full potential in their role in Kenya's economic development.

expand Kenya's national economy and tax income.
Government should do more to strengthen its tax base and revenue generation. Accountants can play a central role in this, not just as state employees. There is a role for the profession in providing advice to government, along with the wider public, in setting government priorities and budgets. There has been a strong call from aid organisations for increased collaboration between the government, civil society and private sector.

Kenya is an economic beacon in East Africa, but in global terms the country could, and should, do much better. This is made clear by its rating in the World Bank's Ease of Doing Business ratings, where Kenya is placed at number 80, performing badly in terms of regulation. It has poor ratings for starting a business (rated at 117); dealing with construction permits (124); registering a property (125); and trading across borders (106). There are also concerns over Kenya's rankings for getting electricity (71); paying taxes (92); enforcing contracts (90); and resolving insolvency (95). Focusing on each of these areas of concern would make Kenya more attractive for foreign direct investment, would improve domestic business start-up rates and reduce impediments to business growth.

It is recognised that Kenya has made progress, but it needs to do more. It has been noted: "In 2016, Kenya simplified the process for starting a business but also made it more expensive. Getting electricity, registering property, minority investor protections, and resolution of insolvency were improved. The government is the largest formal-sector employer. Illegal child labor remains a problem. The government continues to regulate prices through subsidies on corn, milk, sugar, and other staples and through state-owned enterprises."

Corruption remains a serious endemic problem for Kenya, undermining efficiency in both the private and public sectors. The Kenya Corruption Report, published on the GAN Business Anti-Corruption Portal, provided a forthright analysis of the problems: "Kenya's competitiveness is held back by high corruption levels that penetrate every sector of the economy," it said. The report added: "Widespread tax evasion hinders Kenya's long-term economic growth, and fraud in public procurement is rampant."

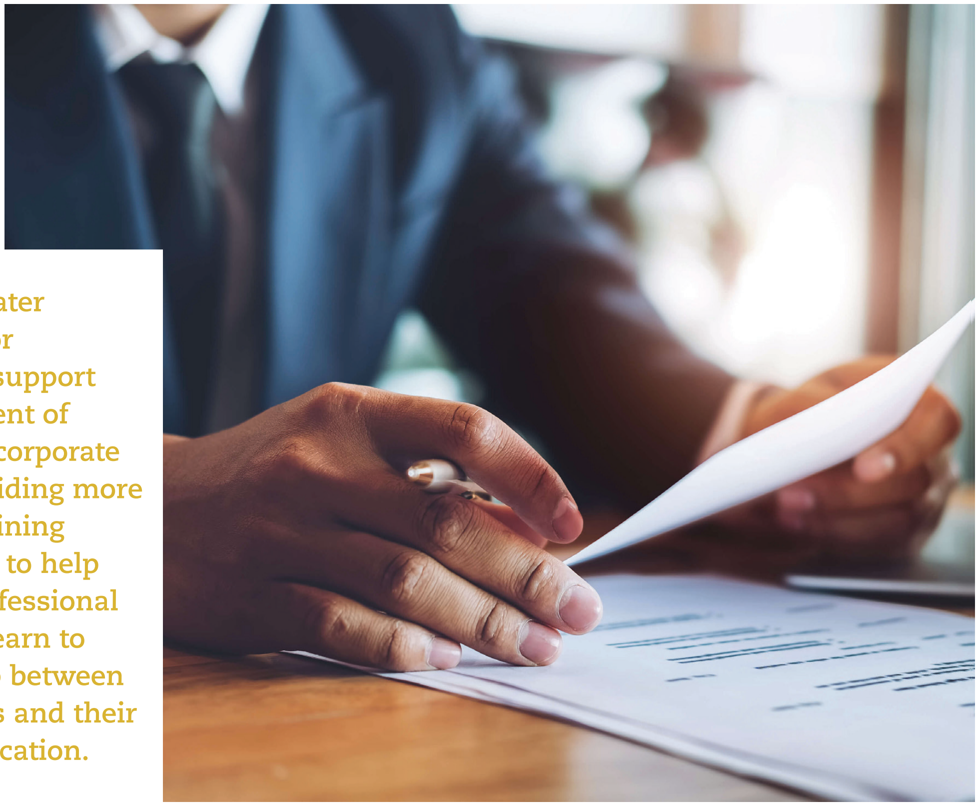
Roundtable comments:

"Functions that need to be performed by accountants should be a preserve of qualified, regulated and practicing accountants."

"Accountants should be more significant at policy making level to promote the ideals of the profession in offering solutions."
"Professional accountants should sit on public sector boards, committees, parastatals, government agencies and non-state bodies to improve decision-making."

"There is a lack of clear communication and dialogue between the profession, government and industry."

"Government needs to pay non-practising allowances to professional accountants."



There is a greater opportunity for employers to support the development of personal and corporate ethics by providing more on-the-job training and guidance, to help individual professional accountants learn to bridge the gap between ethics theories and their practical application.

3.2 The accountancy profession

"There is not enough visibility of accountants in public dialogue. Accountants have been detached from the processes of decision-making and policy formulation. The profession needs to be actively involved in making its voice heard in shaping the socioeconomic perspectives of their countries and the globe at large." Roundtable participant.

Employers need to work with the accountancy profession to ensure that accountants play their full potential role in Kenya's economic development. There is a greater opportunity for employers to support the development of personal and corporate ethics by providing more on-the-job training and guidance, to help individual professional accountants learn to bridge the gap between ethics theories and their practical application. Participants in the roundtables argued that student accountants should be assisted through internships to get ready for real world problems. It was also suggested in the roundtable the opportunity for bodies like ICPAK and ACCA to further strengthen alumni networks with the aim of advancing the public good. Another proposal is for additional support for whistle-blowing and to promote the importance of whistle-blowing, especially in the public sector.

Professional bodies are already seeking to make strides in this direction. For example, ACCA's newly updated qualification assists accountants in being strategic and forward looking, helping to place professional accountants in the role of solution providers. The integrated case study, 'Strategic Business Leader' at the end of the qualification is aimed specifically at developing strategic finance leaders who can think in an integrated way that combines financial and non-financial considerations. Similarly, the newly updated Ethics and Skills Module requires students to evaluate ethical dilemmas in the context of realistic scenarios faced today, and in the future.

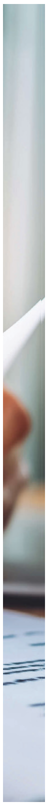
There is a clear trajectory of improvement in the training of the profession – and the roundtable participants were strongly supportive of this approach.

Roundtable comments:

"The profession should engage more in public debate and the public policy agenda to understand the problems of the public and propose solutions in solving them."

"There should be an alumni network, where members can give back by sponsoring needy accountant students."

Notes



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