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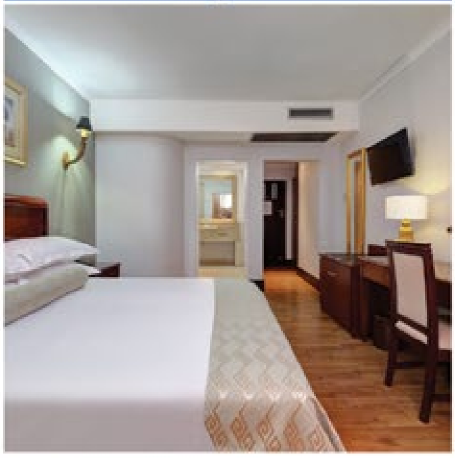

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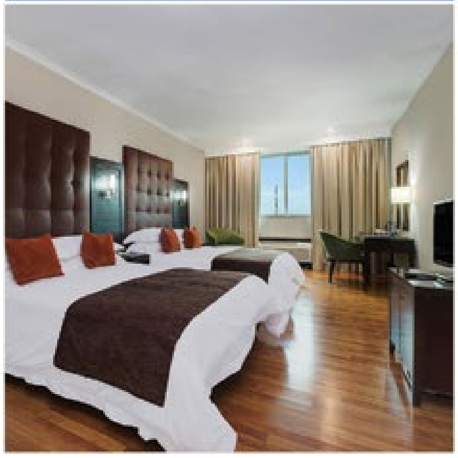

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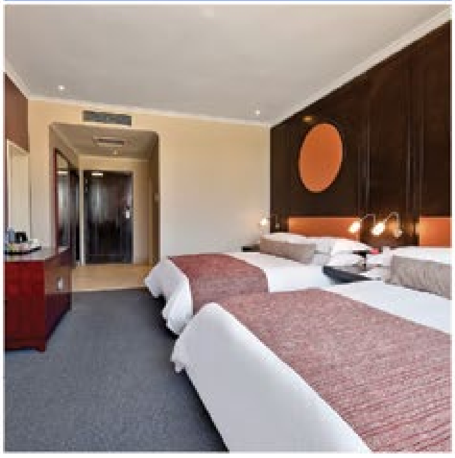

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HAPPY 2019 ENDING

Dear colleagues, as we close the year 2019, I want to thank you for the outstanding contributions you made to national debates, among them the Sales Tax Amendment Bill.

As you may be aware, the Institute arranged countrywide workshops and opened the doors to all ZICA members and the public at large to share their views on this very important bill. It is worth noting that your contributions yielded results and subsequently led to Government shelving the proposed Sales Tax and maintaining the VAT regime.

The Government has listened to concerns and considered the professional advice of stakeholders, which is highly commendable. The Institute is grateful to the Government and leadership of His Excellency Dr Edgar Chagwa Lungu for according it an opportunity to contribute to matters of national and economic interest. The Institute will continue to engage the Government on matters of importance and render our services diligently.

Additionally, the Institute submitted a written Position Paper and appeared before the Parliamentary Select Committee tasked to scrutinise the Constitution of Zambia (Amendment) Bill 2019 on 9th September 2019 to make oral submissions with the desire to see a framework for the Constitution of Zambia that will stand the test of time. In this regard, we appeal to the Members of Parliament to consider the expert views before enacting this Bill. Members are encouraged to access the detailed ZICA analysis on the proposed amendments to the Constitution on our website *https://www.zica.co.zm/research/*.

The Institute could not have ended 2019 on a better note than seeing the appointment of a suitable person to hold the office of the Auditor General. The Auditor General's office is a very important governance institution, which should not be left unoccupied for such a long time. The Institute would like to congratulate Dr. Dick Chellah Sichembe on his appointment as Auditor General. The Institute commends the Republican President for appointing Dr Sichembe, a Fellow and senior member of the Institute with vast Public Sector experience. The Institute is confident that Dr Sichembe will effectively implement and monitor the evaluation of financial management systems, policies and guidelines in accordance with the Zambian Constitution (amendment) number 2 of 2016, Public Audit Act, number 13 of 1994 Public Financial Management Act number 1 of 2018 and any relevant laws to ensure proper management of public resources. We, therefore, call upon the accounting fraternity and the public at large to support him in the execution of his duties.

It is gratifying to note that the Zambian Government has come up with the Corporate Insolvency Act No 9 of 2017 and Insolvency Practitioners Accreditation Regulations (SI 40 of 2019) to help regulate the insolvency practitioners and protect the public. This Act will provide for corporate receiverships, appointment of receivers, business rescue, rights of affected persons during business rescue proceedings, business rescue plans; schemes of arrangements or compromise with creditors; winding up of companies, appointment of liquidators, Insolvency practitioners, and cross-border insolvency.

The Institute is pleased with the coming into force of the Insolvency Practitioners Regulation No 40 of 2019, as this will help to professionalise the practice of insolvency in Zambia. Previously, insolvency practitioners in Zambia were not professionally regulated or accredited, albeit the existence of some evidence, which suggested that some of these individuals and firms purposely and with disregard for the law enriched themselves from the estate of insolvent companies under their control. As an incentive to promote compliance with best practices in corporate governance and to deter misconduct by company directors, legal rules to disqualify persons convicted of such offences as wrongful, unethical practices should be introduced. This could help bolster and strengthen Zambia's legal and institutional framework for corporate insolvency. I, therefore, urge all practitioners to consider being accredited with the Patents and Companies Registration Agency (PACRA) as this will help bring professionalism, integrity and sanity in the market.

Distinguished members, I wish to bring to your attention that the Bank of Zambia has increased the Statutory Reserve Ratios (SRR) applicable on commercial banks' Kwacha and foreign currency deposit liabilities effective December 23, 2019. Commercial banks would be required to hold nine per cent of their deposit liabilities as statutory reserves with the Bank of Zambia from the current level of five per cent. Banks would now be required to maintain the statutory reserve requirements on a daily basis as opposed to the current weekly compliance basis with immediate effect. The change in the statutory reserve requirements was necessitated by the threats to inflation that recent developments in the foreign exchange market pose.

The Institute supports the increase in the (SRR) as a short-term measure to curb threats to the economy through inflationary pressures, which would have resulted from a spiralling exchange rate. The Institute however urges Government to address the fundamental challenges affecting the economy such as the prudent management of resources, debt management and addressing the energy deficit among others.

We commend the Government for revising the National Energy Policy, which aims to liberalise the energy sector. Private sector players should quickly seize the opportunities to collaborate with Government to address the energy deficit by investing in renewable energy projects. To make this work, households and firms will have to be willing to pay a little more for power to attain cost reflective power prices, which would encourage private sector players to invest in the power sector. This is part of the long-term solution to the power crisis, which the country is currently facing.

Lastly, I wish to encourage all ZICA members to service their **investment Units** in full for us to commence the groundbreaking scheduled for the year 2020. Members interested in taking up prime office space in the proposed multipurpose commercial property complex at the Accountants Park should quickly engage Time Property Projects (ZICA's property development partner) as space would be given out on a first come first served basis. I would like to take this opportunity to encourage all members of the Institute to rally behind this cause by expeditiously paying for the Investment Units under the ZICA Property Fund (ZPF) in order for the Institute to achieve this milestone.

I wish you all a Merry Christmas and a Prosperous New year.

Jason Kazilimani Jr
ZICA PRESIDENT

SHELVING SALES TAX

During the 2020 budget presentation, Minister of Finance Dr Bwalya Ng'andu shelved the Government's decision to abolish the Value Added Tax system by replacing it with a Sales Tax that was announced by his predecessor Honourable Margaret Mwanakatwe. The change in tax policy was prompted by a need to "enhance domestic revenue mobilisation". The non-refundable Sales Tax was thought to be simpler to administer than the VAT system.

Bonna Kashinga
ZICA CEO

The Sales Tax was abolished in 1995 and was replaced with the VAT at a rate of 20%. The VAT regime eventually evolved to incorporate the three categories, including standard rates, zero rate and exempt supplies. The current standard rate is 16% for companies with an annual turnover in excess of K800,000. Over the years, however, measures have been applied to achieve simplicity, certainty, equity and efficiency. The monitoring mechanism of VAT through the staged collection process and input/output returns has allowed ZRA to predict and manage revenue collection. This accrual method permits business owners to predict and budget their cash flows. Furthermore, the use of Electronic Fiscal Devices initiated in 2018 allowed ZRA to further monitor the performance of VAT and detect fraud.

Drawing on its statutory mandate to advise the Zambian Government on matters of economic development, the Zambia Institute of Chartered Accountants (ZICA) Council, through the President Jason Kazilimani Jr. at the second quarter 2019 media briefing shed light on among other issues the 2019 Sales Tax Amendment Bill, which has now been withdrawn.

The Government then issued the 2019 Sales Tax Amendment Bill (The Sale Tax Bill) in which it intended to repeal and replace the Value Added Tax Act of 1995. The Sales Tax Bill introduced a sales tax on the supply of goods in the Republic on manufacturers, producers, distributors, wholesalers, and retailers and on importers of goods into the country. It also proposed introducing a sales tax on the provision of services.

The Institute analysed the Bill and expressed its position on possible impacts of the proposed Bill with Government. It made submissions to the Zambia Revenue Authority Technical Committee on Sales Tax and to the Joint Parliamentary Committee on Budget and Economic Affairs, Trade and Labour Matters (visit *https://www.zica.co.zm/wp-content/uploads/2019/06/ZICA-Comments-on-the-2019-Sales-Tax-Amendment-Bills-14-MAY-2019.pdf*).

Primarily, the Institute was concerned that a poorly designed Sale Tax regime could have presented significant downside effects on the economy.

By its design, the 2019 Sales Tax Amendment Bill could have resulted in escalation of prices of goods and services through the cascading effect of sales tax along the value chains of goods and services. This is mainly due to the lack of the refund or tax credit mechanism in Sales Tax, which potentially could have resulted in the increase of the price of goods and services at a rate of 9% or whatever rate would have been prescribed. Businesses could have attempted to counter this by altering their supply chains through eliminating distributors potentially resulting in job losses and loss of amounts obtained from other tax revenue types such as PAYE. The Institute then urged the Government to ensure comprehensive Sales Tax exemption schedules. We also suggested a single rate of Sales Tax on both imports and locally sourced goods and services. We also suggested that a rate not exceeding 5% be set for locally sourced goods and services to minimise cascading effect of sales tax if a single rate were not possible.

The Institute was of the view that given the challenges faced by the fiscus with respect to the VAT Act and its attendant refunds, consideration should have been given to amending the VAT Act rather than repealing it in its entirety. It gave options for amending the VAT Act to include exempting key drivers of VAT refunds, including diesel and electricity.

Sales tax typically has what is called a cascading effect, which is when prices of goods and services increase due to the lack of a refund or tax credit mechanism in sales tax.

There were also apparent implications of Sales Tax on operating models that companies could have adopted to mitigate against the cascading impact.

For example, retailers, it was felt, could have been forced to buy directly from manufacturers. This was particularly true for large multinational retailers with financial and logistical muscle to import directly or buy from manufacturers. Such a change in operating model would have been very detrimental to smaller retailers that would not have been able to compete with larger players. In many instances, distributors and retailers would have been priced out of business.

In the case of mining companies, they would have been forced to import directly from manufacturers to avoid the additional 9% local sales tax.

The Institute feared such a change in the supply chain would have impacted distributors negatively and would have had a very adverse impact on the economy, especially on the Copperbelt. The Institute noted that suppliers to the mines account for a key component of the economy and if they were to be removed from the supply chain, it was likely to result in job losses and, in the end, the fiscus would have collected much reduced amounts.

The Institute therefore advised the Government to re-engage the major stakeholders as the Sales Tax Bill had a number of deficiencies.

It was the Institute's view that the proposed measures had the unintended consequence of being not only drastic but highly punitive and were bound to hurt the economy.

While the motive to increase tax collection from the mining sector was welcome, the Institute strongly recommend a gradual and phased approach to changes to the tax regime to enable the affected parties to prepare and plan.

The Institute felt that a harsh tax regime was going to negatively affect the much needed long-term investments, job creation and investor confidence in the country.

We, therefore, commend Government over its move to suspend implementation of the Sales Tax. That the Government has listened to concerns and considered the professional advice of stakeholders, including the Zambia Institute of Chartered Accountants (ZICA), is highly commendable. This is as it should be. ZICA has a legal mandate to offer advice to the Government and this is a duty we are committed to carryout. We will continue to engage the Government on matters of importance to the economy and we will remain open to the Government.


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ZICA READY TO SUPPORT THE FEMALE INCLUSION AGENDA - KASHINGA

By Accountant Writer

ZAMBIA Institute of Chartered Accountants Secretary and Chief Executive Bonna Kashinga has challenged women and girls in the country not to hold back on showing off their success.

During the 3rd Forum for Zambian Women Accountants Symposium held at Taj Pamodzi Hotel, Lusaka, on 11th October 2019, Mr Kashinga, however, took note of the high calibre of women who are immensely contributing to breaking the invincible barrier blocking women's progression to various senior positions.

Mr Kashinga expressed gratitude over the current trends of involvement of women in key positions and decision-making processes to foster economic development.

He stated that the Institute was happy to support the female inclusion agenda and put in place activities that would catapult women to their full potential.

He stated that since the inception of FZWA three years ago, ZICA had been supporting the forum with resources to mobilise towards achieving the female participation agenda.

He noted that over the years, FZWA has been supporting the girl recruitment into accountancy programmes through outreach programmes, school visitations, mentorship, profiling of senior female members, among others.

"This is aimed at up-scaling the connection of success to the same gender to encourage young girls to stand up and be counted in society. These mentorship programmes are now beginning to yield positive results as shown by the gender performance statistics for the December 2018 and June 2019 examinations on ZICA education programmes consisting of the CA Zambia programme and the three diplomas in accountancy, taxation and public sector financial management," Mr Kashinga said.

"As an example, during the June 2019 examination diet, on average, female candidates across all programmes recorded a 43.7% pass rate as compared to their male counterparts who recorded a 42.6% pass rates across all programmes. It is therefore gratifying to note that our female candidates are performing so well in our examinations."

However, Mr Kashinga stated that the challenge still remains that uptake into the accountancy profession is still low mainly because of the perceptions around a belief that number crunching is not for women.

He urged women who have made it to top to dispel this adage and let girls compete shoulder to shoulder with boys.

"We need to teach our girls that they are as good as the boys seated next to them in a classroom. The question then comes: how do we make girls believe they can do it? This will only come about by women not holding back on showing off their success and telling their stories?"

Mr Kashinga stated that it is amazing that FZWA leaders and members still find time to engage with young women in various institutions of learning.

He stated that the FZWA motto of "We are better together" underlines the selflessness that must be exhibited by all women in ensuring that the girl child has the support and the motivation for better engagement with society.

"In its quest to dispel the myth that only men can make it to top positions, ZICA is launching the Chartered Accountant Zambia Ambassadors programme in November 2019. This programme is aimed at elevating the status of young people to rise and take up leadership challenges. ZICA will in the next few days announce and request for entries to this prestigious grouping," he announced. "We are expectant that young women who are studying various ZICA programmes will take the challenge, apply and be able to defend why they think they fit the profile for this special group. We are desirous of a 50% female representation on this prestigious programme and we are sure this will further raise the inspiration of other young women to take up accountancy as a profession. This programme will focus on leadership and soft skills training among others."

He was confident that with events such as the Forum For Zambian Women Accountants Symposium, the gender gap will reduce and the advancement of women in different career paths is definitely headed the right direction.

"The Institute supports the female inclusion agenda and will continue to support activities that help women rise to their full potential," stated Mr Kashinga.

GREATER PARTICIPATION IN SERVICES PROVISION TO THE MSME SECTOR

What Will it Take for the Accountancy Profession?

By Christian Chileshe AZICA, PhD

INTRODUCTION

A growing number of professionals, such as accountants, has realised that the Micro, Small and Medium Enterprise (MSME) sector presents many (and still largely untapped) opportunities for providing a wide range of services. However, many will also acknowledge that working within this sector can be quite challenging, not least because a number of the issues associated with MSMEs do not fit squarely into the typical education and professional development pathway.

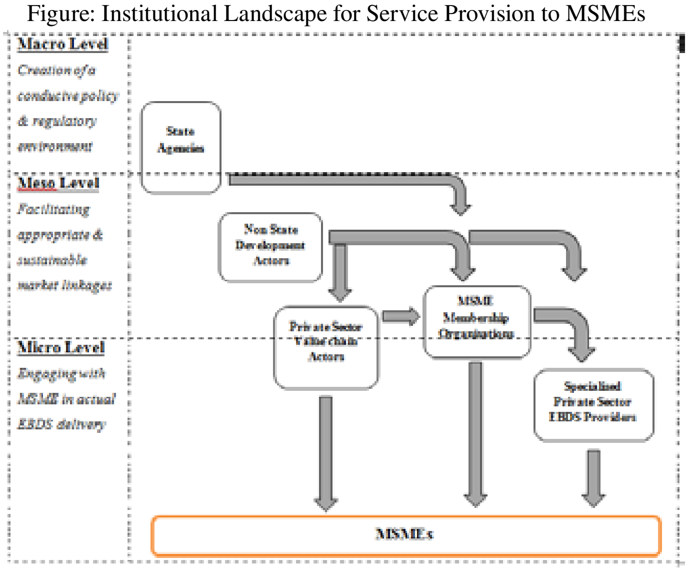
This article draws on research-based insights to present fundamental issues that the accountancy profession may need to reflect on if it is to play an even greater role in MSME sector development. The article achieves this by employing an institutional approach to examine the environment within which services to MSMEs are designed and delivered. This also includes a few specific pointers to existing opportunities and challenges for the profession to consider.

THE INSTITUTIONAL LANDSCAPE FOR MSME SERVICE PROVISION

Because of the well-known overall national developmental potential that MSMEs harbour (See for example Pennisi, 2012), it is not surprising that different types of institutional actors actively engage them in one way or another, offering them support intended to unlock this potential.

The diagram below provides a visual depiction of the typical landscape for the provision of Entrepreneurship and Business Development Services (EBDS) to MSMEs.

Figure: Institutional Landscape for Service Provision to MSMEs



Source: Chileshe, 2018

What follows below is a brief discussion on the key actors, the major roles they are playing and a few pointers for the accountancy profession.

1. STATE INSTITUTIONS

Government agencies in many developing countries see themselves as needing to actively provide various enterprise development services to MSMEs, often in the hope that this would help stimulate demand for the services and so make entry easier for the private sector.

However, direct state provision of enterprise development support generally raises many concerns. Probably top of the list would be the possible "crowding out" effect this may have on private sector service providers. It has been argued that the perception created by the free or subsidised nature of state-provided services negatively affects willingness by the MSMEs to pay market rates charged by the private sector. Further, if the quality of services rendered by state agencies does not clearly demonstrate value-addition (i.e. given that they may not necessarily be well-versed with the practical realities of MSME development), this may further dampen overall future demand.

There is undoubtedly significant scope for accountants to collaborate with state agencies in the provision of services to MSMEs. At the very least, the profession needs to provide particular competencies needed within these agencies. But maybe even more important, and in view of the highlighted negative effect that may come with state-delivered services, the profession may need to, in collaboration with other actors, participate in identifying mechanisms that more effectively and sustainably promote MSME development, through private sector driven service provision. There is now significant research-based guidance on models that could be considered for this purpose (See Chileshe, 2018; McVay & Miehlbradt, 2002).

The accountancy profession also has the opportunity to deliberately create platforms for on-going conversation and the continued evolution of the MSME regulatory framework. While this seems to be happening for the broader private sector, it appears more could be done specifically for the MSME sector. Some possible areas needing policy-level engagement include financial reporting, taxation, MSME participation in financial and capital markets, and other related policy and regulatory issues.

2. DEVELOPMENT AGENCIES

The fundamentals that continue to inform the role of development agencies in MSME development globally are captured in a document of guiding principles published in 2001 by the Committee of Donor Agencies for Small Enterprise Development. This document affirms the critical role of private sector service providers in MSME development. It also defines the role of development agencies as needing to be largely facilitative (Meso level as opposed to micro level service provision).

However, many development agencies operating in Zambia continue to directly provide enterprise development services to MSMEs. This may be in part because professionals such as Accountants are yet to take particular note of established global standards on service provision to MSMEs, and to engage the development sector around a transition process that can lead towards more sustainable arrangements.

In their Meso level role as facilitators of MSME development, development agencies need to collaborate with accountants in various ways. For instance, development agencies can play an important role in brokering firm linkages between MSMEs and the accountancy profession, thereby helping small firms appreciate and access professional services critical to their development. Also, in their advocacy for what they see as a more conducive MSME policy and regulatory environment, development agencies can benefit from knowledge and practical insights from experienced accountants that work within the MSME sector.

International development agencies have in the recent past been championing Business to Business (B2B) arrangements between local MSMEs and foreign firms. Structuring of such business arrangements call for technical expertise such as is possessed by qualified accountants, lawyers and such other professionals. But the unique nature of these arrangements calls for prior consultation between relevant professional bodies and the B2B facilitators.

3. VALUE CHAIN PLAYERS

Larger private sector actors are playing an ever-increasing role in promoting entrepreneurship and business development in the MSME sector. Though this role has often not been recognised, it has existed and in some cases in a very significant way.

Support to MSMEs may come in the form of embedded service or may be bundled with other transactions, and mostly in one of the following relationships: (1) Large contractor and their smaller subcontractors/partners ("Sign-up to professional services, then work with us"); (2) Manufacturers and their entrepreneurial buyers/distributers; (3) Large off-takers and their smaller inputs suppliers; and (4) Franchisers and their franchisees, to protect the brand (Suzuki, 2002; Rodriguez, 2010).

The parties to the arrangement will each have vested business interest in ensuring the support services achieve desired results. The larger players are interested in developing a viable business linkage to protect their supply chain. The smaller firms seek to utilise the linkage to grow their enterprises. In such business-driven linkages, each party is willing and able to contribute towards sustainably accessing professional service, such as those of an appropriately skilled accountant (Reji; 2013).

These kinds of relationships tend to be sector-based and, in Zambia, are particularly evident in agriculture and mining. For example, out-grower arrangements in the agriculture sector will involve a large off-taker (e.g. commercial farmer, commodity marketing firm or processor) and small producers that may be organised in cooperatives (Haachambwa, et al., 2014). For the mining sector, the growing push for local content (participation of locals) has led to large multinational mining firms working with and supporting access to professional services by their smaller local suppliers.

An important point here is that the accountancy profession needs to be more deliberate at identifying sectors and value chain linkages that present scope for their participation, at developing deep understanding of the relevant issues in these sectors and at presenting clear value propositions to respective value chain players.

4. SPECIALISED PROFESSIONAL SERVICE PROVIDERS

In principle, there seems to be little debate that market-based support to MSME is the ultimate means to ensuring efficiency, effectiveness and sustainability. Jackson (2004) captures the general consensus in the phrases: "business like demand-led and tailor-made".

In practice, however, there are a number of issues that are yet to be addressed. A lot of the services to MSMEs, even when delivered by private sector experts, are still financed through donor-funded projects. This may raise questions such as "who is the ultimate customer? Is it the funder or the MSME operator?" In reality, there is a high likelihood that the funder may wield significant influence on the content, method and approach of the services delivered (Vandenberg & Sievers, 2007). In this regard, some may argue that current MSME service delivery models are still largely supply-driven.

Does this mean donor funding should therefore be withdrawn from the MSME sector? Not quiet. There is a clear case for donor-funding that is well-defined towards segments of the MSME sector that may need such "boosting". There is however evidence from the Zambian MSME sector that the absence for strong coordination mechanisms in MSME service provision may be leading to sub-optimal outcomes. Indeed, the efforts of some players may be achieving the unintended effect of undermining the efforts of others. (Chileshe, 2018).

The ideal form of service provision to MSMEs should be based on an evolutionary and iterative approach whereby the MSME client and professional service providers are co-producers and co-developers. Yet, too many services currently being offered to MSMEs are of the ready-made or "off the shelf" type that is often not specifically designed for this clientele.

Professionals such as Accountants have the challenge of adopting innovative approaches in their service delivery, albeit within professionally prescribed boundaries. But this can sometimes be problematic for the service provider because technical competence does not imply entrepreneurial capability. This raises the need for professional bodies to pay more attention to entrepreneurship development for their members. There is no doubt that entrepreneurial MSME operators will more highly value the services of entrepreneurial technical experts.

5. MSME MEMBERSHIP ORGANISATIONS

MSME networks, alliances and clusters have long been viewed as important nodes for enhancing service provision to the sector. Various theories have been used to explain why MSME see value in belonging to membership-based organisations. These include the transaction cost theory, resource-based theory and the knowledge-based theory (Hoffmann & Schlosser, 2001).

A good understanding of the motivations for the clustering will enable a professional service provider to identify needs that are commonly felt by these MSMEs, and so develop products that can be delivered cost-effectively because they fit the needs of a large portfolio of clients. Utilisation of such economies of scale opportunities can make the difference between success and failure in reaching major segments of MSMEs.

Because membership-based organisations are closest to their members, they are important partners that deserve greater attention from the accountancy profession. Engaging formally with organisations representing the various segments of the MSME sector, and developing common understanding around various issues may unlock significant opportunities for profession while also enhancing MSME development in Zambia.

CONCLUSION

This article has sought to demonstrate that greater participation by the accountancy profession in service delivery to the MSME will first require a deeper appreciation of the challenges and opportunities that exist in the sector. The article as used an institutional approach to provide insights into what some the key issues might be. ■

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FINANCIAL DERIVATIVES: KEY TO FINANCIAL RISK MANAGEMENT FOR ZAMBIAN CORPORATIONS

1 INTRODUCTION

Financial derivatives have become increasingly important in today's market mainly owing to the size of the derivatives market and its importance to the world financial system. According to statistics from the Futures Industry Association (FIA), the number of futures and options traded on exchanges globally surged 20.2% year-on-year to 30.28 billion contracts. Another report by the BIS indicated that the open value of the open interest of exchange traded futures and options as at December 2018 was US$39,035 billion and US$55,724 billion respectively and the notional value of outstanding over the counter (OTC) derivatives increased from $532 trillion at the end of 2017 to $595 trillion at the end of June 2018.

The above numbers show how significant the derivative market is to the global economy. Hull (2019) defines a derivative as "a financial instrument whose value depends on (or derives from) the values of other, more basic, underlying variables". This definition will become clearer later on when we look at how modern executives can utilise these financial derivatives for risk management purposes.

Financial derivatives play an important role in the management and transfer of financial risk in the economy to parties who are willing to take up more risks. Therefore, there is a need for Zambian executives to have a clear understanding of how these derivatives operate and how organisations can effectively use them to manage their risk.

2 TYPES OF DERIVATIVES TRADERS

There are mainly three different types of traders namely, Hedgers, speculators and arbitragers. I tend to view these as different ways of making use of financial derivatives.

2.1 Hedgers

Hedging is a financial technique that helps to reduce or mitigate the effects of measurable type of risk from the future changes in the fair value of commodities, cash flows, securities, currencies, assets and liabilities. It is kind of an insurance that does not eliminate the risk completely but mitigates its effect. Hedging is by far my most recommended way of utilising financial derivatives by Zambian executives. Let's look at two examples of how hedging works using; (i) forward contracts and (ii) using options.

2.1.1 Hedging using forward contracts

Assume that it is May 6, 2018, and Kabinda and Associates Limited, a Zambian Company, knows that it will have to pay £10 million on August 6, 2018, for goods it has purchased from a British supplier. [The ZMW–GBP exchange rate quotes made by a financial institution are shown in Table 1.1.] Kabinda and Associates Limited could hedge its foreign exchange risk buying pounds (GBP) from the financial institution in the 3-month forward market at 15.538. This would have the effect of fixing the price to be paid to the British exporter at ZMW155, 380,000. The Company thus has locked in the rate and is binding regardless of the outcome (i.e. whether the kwacha performs well or not) after 3 months.

Table 1.1 Spot and forward quotes for the ZMW/GBP exchange rate, May 6, 2018 (GBP British pound; ZMW Zambian Kwacha; quote is number of ZMW per GBP).

	Bid	Offer
Spot	15.541	15.545
1-month forward	15.538	15.543
3-month forward	15.533	15.538
6-month forward	15.526	15.532

Now imagine that it's August 6, 2018 and the exchange rate turns out to be ZMW16.00/GBP, the £10 million will cost ZMW160, 000,000 - and the company will benefit as it had locked in the rate and will simply pay ZMW155, 380,000. The position of Kabinda and Associates Limited if it had not hedged is the reverse.

However, imagine that the copper prices have suddenly increased on the London Metal Exchange thus increasing the demand for Kwacha and resulting in the appreciation of the Kwacha with an exchange rate of ZMW14.00/GBP. Kambinda and Associates Limited will still have to pay the ZMW155, 380,000 and would not benefit from the appreciation of the Kwacha. If the company had not hedged, the £10 million that it has to pay will cost ZMW140, 000,000, which is less than ZMW155,380,000. Thus, it can be noted that if the exchange rate in August proves to be less than 15.533, the company will wish that it had not hedged; if the rate is greater than 15.533, it will be pleased that it had done so. It is important to understand that the purpose of hedging is to reduce risk and there is no guarantee that the outcome with hedging will be better than the outcome without hedging.

2.1.2 Hedging using options

Options are different from forward and futures contracts. An option gives the holder of the option the right to do something, but the holder does not have to exercise this right. By contrast, in a forward or futures contract, the two parties have committed themselves to some action as seen in the example provided above.

Take for Instance a stock market investor by the name of Ms Pendwe who owns 10,000 shares in BB Choma Limited, a Company listed on the Lusaka Securities Exchange (LuSE) as at May 2019.The share price is ZMW28 per share and Ms Pendwe is concerned about a possible share price decline in the next two months and wants protection. Ms Pendwe could buy ten July put option contracts on the company's stock with a strike price of ZMW27.50. This would give Ms Pendwe the right to sell a total of 10,000 shares for a price of ZMW27.50. If the quoted option price is ZMW10, then each option contract would cost 100 × ZMW10 = ZMW1000 and the total cost of the hedging strategy would be 10 × ZMW100 = ZMW10,000. The strategy costs ZMW10,000 but guarantees that the shares can be sold for at least ZMW27.50 per share during the life of the option. If the market price of the stock falls below ZMW27.50, the options will be exercised, so that ZMW275,000 is realised for the entire holding. When the cost of the options is taken into account, the amount realised is ZMW265,000. If the market price stays above ZMW27.50, the options are not exercised and expire worthless. However, in this case, the value of the holding is always above ZMW275,000 (or above ZMW265,000 when the cost of the options is taken into account).

2.2 SPECULATORS

These are the risk takers and they basically use financial derivatives as a gambling instrument as they believe they can accurately predict the outcome of events. In 1995 a British trader by the name of Nick Leeson employed by Barrings Bank had accumulated huge losses from unauthorised trades and on January 16, 1995, with the aim of "recovering" his losses, he placed a short straddle on Singapore Stock Exchange and on Nikkei Stock Exchange, betting that Nikkei would not drop below 19,000 points. But the next day, the unexpected earthquake of Kobe shattered his strategy. Nikkei lost 7 % in the week. Nick Leeson took a 7-billion-dollar value futures position in Japanese equities and interest rates, linked to the variation of Nikkei. He was "long" on Nikkei. In the three days following the earthquake of Kobe, Leeson bought more than 20,000 futures, each worth 180,000 dollars. He tried to recoup his losses by taking even more risky positions, betting that the Nikkei Stock Exchange would make a rapid recovery; he believed he could move the market but he lost his bet, worsening his losses which amounted to approximately $1.4 billion. This resulted in the bankruptcy of the 223-year-old bank which was known as the queen's bank. The Bank was eventually sold for a pound to Dutch group ING. Nick was later arrested and sentenced to six and half years in prison. The Barrings Bank case is a very good example of speculation using financial derivatives.

2.3 Arbitrageurs

I like to think of these guys as the "smartest guys in the room". These guys capitalise on market inefficiencies. Arbitrage involves locking in a riskless profit by simultaneously entering into transactions in two or more markets. Let us consider a stock that is traded on both the Lusaka Securities Exchange and the London Stock Exchange. Suppose that the stock price is ZMW1,500 in Lusaka and £100 in London at a time when the exchange rate is ZMW15.30 per pound. An arbitrageur could simultaneously buy 100 shares of the stock in Lusaka and sell them in London to obtain a risk-free profit of 100 × [(15.3 × 100) - ZMW1,500] = ZMW3,000 holding transaction costs as nil. Transaction costs may eliminate the profit for a small trader but for big investment banks such as JP Morgan Chase and Goldman Sachs that make huge transactions, they can maintain a good profit after factoring in the cost of transaction.

3 NEED FOR INCREASED USE OF FINANCIAL DERIVATIVES AS A HEDGING STRATEGY IN ZAMBIA

According to Country report (Zambia) by the Economist Intelligence Unit (2019, p.7), "Depreciation in the kwacha in late 2018 and 2019 will push average annual inflation beyond the BoZ's 6-8% target range in the early part of the forecast period. A poor harvest in 2018 will add to the upward pressure on consumer prices in early 2019 (via higher food costs), and currency depreciation will prompt higher import prices as well. As a result, we expect inflation in 2019 to rise to an average of 8.3%. Global oil prices are expected to fall slightly in 2020, and, in tandem with improved kwacha stability, inflation will fall to 6% in that year. As global crude prices broadly recover in 2021-23, inflation will be higher, but some (slight) currency appreciation, based on rising copper prices, will keep the headline rate within the BoZ's target range at an average of 7% a year. An upside risk to the forecast stems from possible monetisation of the budget deficit, which could rise in the event of insufficient appetite for government debt".

The forecasts above shows that there is a lot of uncertainity in relation to the foreign exchange rates, inflation levels and commodity prices in Zambia. This poses a challenge to executives in Zambia, especially those that have foreign currency transactions or those that are heavily affected by commodity prices such as Copper price, fuel price etc. and they need to look back at their operations and critically analyse the risks involved and how they can hedge those risks using instruments such as Forward rate agreements, futures, options or swaps.

Companies that heavily rely on debt that is denominated in foreign currency should be concerned about the interest rate as well as the foreign exchange rate fluctuations and would want to consider hedging the risks of such fluctuations. Mayers and Smith (1982) and Smith and Stulz (1985) argue that hedging reduces the probability that the firm encounters financial distress by reducing the variance of firm value, and thereby reduces the expected costs of financial distress. Further studies by Block and Gallagher (1986) and Booth, Smith, and Stolz (1984) indicate that, hedging programs exhibit informational scale economies and that larger firms are more likely to employ managers with the specialized information to manage a hedging program employing these instruments. This argument implies that large firms are more likely to hedge. Empirical evidence reveals that hedging through the use of financial derivative is an important skill for managers and those who possess the skill are more likely to be employed by larger firms.

CONCLUSION

Key lessons to be learned are that financial derivatives are becoming increasingly important and executives in Zambia should strive to understand how they operate and how they can be used effectively to manage financial risk and increase the firm's value. Further, empirical evidence shows that hedging skills are a key requirement for today's financial managers and those that have the skill are more likely to be hired by large firms. Therefore, owing to the uncertainty in the Zambia economic forecasts by the Economic Intelligence Unit, Financial executives in Zambia need to take financial risk management seriously and utilise financial derivatives as a way of hedging the risk. ■

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BLOCKCHAIN TECHNOLOGY

AND ITS IMPACT ON THE ACCOUNTANCY PROFESSION

WHAT IS BLOCKCHAIN TECHNOLOGY?

Blockchain is a digital ledger created to capture transactions among parties in a network. It is a peer-to-peer, internet based, distributed ledger which includes all transactions since its creation. All participants using the shared database are 'nodes' connected to the network (Blockchain) each maintaining an identical copy of the ledger.

Blockchain can also be explained using a WhatsApp group analogy. This WhatsApp group can be a group of individuals performing various transactions among themselves. Now, whenever a transaction happens, everyone in the group is notified to see and for those interested to record the transaction in their notebooks. The transactions are therefore public and can be verified by anyone. The group will be able to keep track of the transactions and know each member's balance at any given time. In this scenario, the chat history is the **distributed ledger** since it is distributed to each member's phone (**Node**). Each node maintains an identical copy of the chat history in such a way that it cannot be altered even if one or more members left the group or in a case where the phone has crashed.

The Blockchain technology came into light after debates about opportunities that come with it were triggered. This was after the introduction of Bitcoin, an experiment started by Satoshi Nakamoto (believed to be pseudonym) in 2008, which demonstrated that there can be a viable digital alternative to cash transactions and other mediums of exchange in modern society. Understandably, the focus on digital currencies such as bitcoin has created a common misconception that blockchains are only relevant to the banking sector. However, the blockchain technology can also be useful to insurance, the public sector and the media industry.

PUBLIC AND PRIVATE BLOCKCHAINS

Like many other databases, blockchains can be public or private. The bitcoin network is public (also called "permission-less") because anyone can read or write data from or to the ledger if they are using the appropriate bitcoin software. Private blockchains, on the other hand, are networks where the participants are known and have permission to update the ledger. Participants may come from the same organisation or from different organisations within an industry sector where the relationships between them are governed by informal agreements, formal contracts or confidentiality agreements.

THE APPLICATION OF BLOCKCHAIN: LAND REGISTRY

Perhaps the clearest case where blockchain could be advantageous is provenance and transfer of ownership of assets, and land registry is a particularly good case. Creating a clear and permanent record of ownership and transfers of ownership would help create liquidity in the economy by increasing security, and fight corruption by distributing maintenance of records to all parties rather than just to some.

As a public register, the open visibility of the blockchain is not obstruction for land registry. It is acceptable for participants to know who owns, sells and divides land. Furthermore, the verifiability aspect can help to add transparency where needed.

THE APPLICATION OF BLOCKCHAIN: SMART CONTRACTS

A key development of blockchain was the introduction of smart contracts. A smart contract is a computer code stored on a blockchain network that executes action under specified circumstances. It enables counterparties to automate tasks usually performed manually through a third-party intermediary. Smart-contract technology can speed up business processes, reduce operational error and improve cost efficiency.

For example, two parties could use a smart contract to enter into a common derivative contract to hedge the price of oil at the end of the year. Once the terms of the contract have been agreed to, it is appended to the blockchain and the wagered funds are held in custody and registered on blockchain. At the end of the year, the smart contract would read the price of oil by referencing a trusted source defined in a smart contract (known as an "Oracle"), calculate settlement amount, and then transfer funds to the winning party on the network.

THE ACCOUNTING PERSPECTIVE: THE POTENTIAL OF BLOCKCHAIN

Blockchain is an accounting terminology. It is concerned with the transfer of ownership of assets, and maintaining a ledger of accurate financial information. The accounting profession is broadly concerned with the measurement and communication of financial information, and analysis of the said information. Much of the profession is concerned with ascertaining or measuring rights and obligations over property, or planning on how to best allocate financial resources. For accountants, using blockchain provides clarity over ownership of assets and existence of obligation, and could dramatically improve efficiency.

Blockchain has the potential to enhance the accounting profession by reducing the costs of maintaining and reconciling ledgers, and providing absolute certainty over the ownership and history of assets.

Blockchain could help accountants gain clarity over available resources and obligations of their organisations, and also free up resources to concentrate on planning and valuation, rather than just record keeping.

THE ACCOUNTING PERSPECTIVE: IMPLICATIONS FOR AUDITORS

The public looks to auditors to enhance trust in the audited information of companies they audit and help the capital markets system function with confidence. Auditors practice under strict regulations, professional codes of conduct and auditing standards, and they are independent of the entities they audit. They apply objectivity and professional scepticism to provide reasonable assurance about whether an entity's financial statements are free from material misstatements, and depending on the engagement, about whether a company's internal controls over financial reporting are operating effectively.

Some publications have hinted that blockchain technology might eliminate the need for financial statements audit by an independent auditor. If all transactions are captured in an immutable blockchain, then what is left for an auditor to audit?

While verifying the occurrence of a transaction is a building block in financial statements audit, it is just one of the important aspects. An audit involves an assessment that recorded transactions are supported by sufficient, appropriate evidence that is relevant, reliable, objective, accurate, and verifiable. The acceptance of a transaction into a reliable blockchain may constitute sufficient, appropriate audit evidence for certain financial statements - assertions such as occurrence (e.g. that an asset recorded on the blockchain has transferred from seller to buyer). However, the auditor may or may not be able to determine the product that was delivered by solely evaluating information on the blockchain. Therefore, recording a transaction in a blockchain may or not provide sufficient, appropriate audit evidence related to the nature of the transaction. In other words, a transactions recorded in a blockchain may still be:

- Unauthorised, fraudulent and illegal
- Executed between related parties
- Incorrectly classified in the financial statements

CONCLUSION

To become truly an integral part of the financial system, blockchain must be developed, standardised and optimised. This process is likely to take many years - it has already been nine years since bitcoin began operating and there is much work still to be done. There are many blockchain applications and start-ups in the field, but there are few that are beyond the proof of concept or pilot study stage. Accountants are already participating in the research, but there is more for the profession to do. Recently, sixty CEOs from professional accountancy organisations met over two days at the International Federation of Accountants' offices in New York to discuss a future ready accountancy professional in the light of the impact of technology and changing society expectations. The future ready profession will need to be agile, anticipating, embracing change, and continuously relooking and adapting to the environment to remain relevant.

Overall, we can expect that if not blockchain, then some implementation of a distributed ledger systems will emerge as a key business technology. Accounting will be more efficient due to the increased trust in the information available and the reduced time spent in reconciling and disputing records with other parties. This will lead to greater focus on the ultimate aims of accountancy – interpreting the economic meaning of transactions, and providing information to support better decisions.

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EFFECT OF TAX INCENTIVES ON THE GROWTH OF SMES

INTRODUCTION

The theory behind using tax incentives to promote small and medium-sized enterprises (SMEs) is at its core from the finance theory of net present value (NPV) decision rule. The rule implies that firms continue to spend on capital assets and R&D (Research and Development) as long as the present value from an additional unit of capital or R&D is equal to or exceeds the cost of the additional unit. Consequently, it is assumed that businesses would consider tax implications in their calculation of the value of their expenditure decisions since any reduction in the cost of capital caused by tax policy leads to an equal increase in expenditure, Hansson and Brokelind (2014).

SMEs play a vital role in the economic development of a country. Studies have indicated that SMEs contribute more than 50% of the gross domestic product (GDP) in many developing countries. More still, SMEs are the largest employers, employing more than 90% of the working force.

In a bid to stimulate growth of SMEs, a number of countries have used tax incentives, for both investors and listing firms, to promote activity on SME boards. Tax incentives for investors are the more common approach, particularly in advanced markets, Mintz and Chen (2011). For instance, **Poland** adopted the policy of encouraging investment in shares of SMEs through removing the so-called "back-end" taxes, which are taxes applied to profits made when selling a security.

In **South Korea** and India, investors benefit from reduced capital gains taxes on SME equity investments. This is done via the cutting of short-term capital gains tax in half, from 30 to 15% for shares listed of SMEs. The UK and Spain adopted a tax incentive policy where the retail investors may deduct a set percentage of the value they invest in shares of SME equity. This happens via offering tax offsets only for acquiring shares in new SME equity offerings.

In **France**, the investors can get a tax credit of 18% of the value invested in innovation mutual funds **French acronym**. The latter invest at least 60% of their portfolios in SME equity. Though these policies have been adopted, the possible outcome may not significantly affect entrepreneurs as their interest rather lies with the capital influx from equity offerings in SMEs, Broersma and Gautier (2017).

Belgium offers several investment allowances. The general investment deduction for SMEs amounts to 10.5% of the depreciation taken on assets. The rate varies between 10.5 and 12.5% since 2009. The incentive is restricted to companies with fewer than 20 employees. Unused amounts can be used in subsequent years with a maximum carry-forward of €946,800 (or 25% if the unused part exceeds €3,787,210). Additionally, an allowance of 20.5% is granted to SMEs for investments in safety measures either in the year of the investment or the following year. Concerning carry-forwards, the same rules apply as for the aforementioned deductions. A national interest deduction is available for all Belgian companies. It amounts to 4% of qualifying equity. SMEs, however, are allowed to deduct an additional 0.5%. Since 2012, carry-forwards are no longer possible, De-Wit and De-Kok (2014).

Austria does not offer special tax incentives for SMEs on the firm level. There is only an adjusted minimum tax for newly founded companies of €1,092 that merely benefits low-income companies. On the shareholder level, Austria grants full exemption to income from participations in unlisted European SMEs (that is, dividends, capital gains and interest payments) for so-called intermediary investors. Intermediary investors must be corporate entities financed with equity capital. For individual investors, dividends from such intermediary investors are exempt from income taxation up to €25,000. Enterprises are exempt from the value-added tax (VAT) if their turnover is lower than €35,000. Moreover, enterprises with less than €100,000 of turnover in the preceding year only have to file VAT returns and make VAT payments on a quarterly basis (instead of monthly). Suppliers with a turnover of less than €110,000 may pay VAT on a cash basis De-Wit and De-Kok (2014).

Bulgaria does not have special tax incentives for SMEs. Small companies are subject to administrative reliefs, though. Enterprises whose net sales in the previous year were below BGR300,000 (≈€150,000) do not have to make advance tax payments and those with net sales below BGN 3,000,000 (≈€1,500,000) only have to make quarterly advance payments (instead of monthly). In addition to that, simplified accounting standards apply for SMEs. VAT registration is only required for enterprises with more than BGN 50,000 of turnover, De-Wit and De-Kok (2014).

Croatia provides comprehensive investment incentives for new undertakings. Income from new investments (also by existing enterprises) can be subject to corporate income tax rates that are reduced by up to 100% for 10 years. The exact amount of the reduction depends on the size of the investment and on the number of newly created jobs related to the investment: 100% reduction if investment is at least €3 million and related to 15 new employees; 75% reduction if investment is at least €1 million and related to 10 new employees; and 50% reduction if investment is less than €1 million and related to 5 new employees, De-Wit and De-Kok (2014).

Finland does not provide tax incentives specifically targeted at SMEs. There is a regime of accelerated depreciation for fixed assets being used in production activities (200% of the usual depreciation rate on machinery, equipment and industrial buildings). The regime used to be restricted to SMEs until 2013 but is now available for all enterprises. Moreover, with the super deduction of 100% of salary costs incurred for R&D projects being capped at €400,000, SMEs should benefit more than large enterprises. Businesses with less than €8,500 of turnover are exempt from VAT. If turnover is below €25,000, only yearly VAT payments need to be made, if it is below €50,000, only quarterly payments are required (instead of monthly). Moreover, SMEs are subject to reduced documentation requirements with regard to transfer prices, De-Wit and De-Kok (2014).

Zimbabwe provides investment incentives with six objectives in mind: Employment creation; small business development; industrial development; export promotion; spatial development; and "upliftment" of the disadvantaged. Many of the incentives take the form of financing arrangements, which operate through the Ministry of Industry and International Trade, the Industrial Development Corporation and the Zimbabwe Investment Centre. The most extensive tax incentives accrue to exporters. Under the Export Processing Zone Act of 1995, enterprises in manufacturing, processing or services are licensed by an Export Processing Zones (EPZ), Kaplan (2001). Authority to operate in an EPZ is related to obtaining a 5-year tax holiday, followed by a rate of 15 percent. EPZ companies also receive the standard duty-free access to imports and refunds on sales tax for domestically procured goods and services.

The aim of **Tanzania's** tax incentive programmes is to attract productive investment, create employment and enhance exports. The Tanzania Investment Act of 1997 provides the basic framework for investment promotion, though associated tax measures are incorporated into the respective tax legislation. The main change in 1997 was to end income tax holidays outside of export processing zones, in favour of expensing of capital assets and remission from customs duty on capital goods for holders of a Certificate of Investment from the Tanzania, Zee et al., (2002).

Tax incentives in **Kenya** can be grouped into either investment promotion incentives or export promotion incentives. Investment Promotion Incentives include Investment Deduction Allowance which was introduced in 1991 to encourage investment in physical capital such as industrial buildings, machinery and equipment; industrial building allowances which was introduced in 1974 with the objective of encouraging investment in buildings used for industrial purposes like hotels and manufacturing plants; mining deductions allowance which was introduced to encourage investors to venture into the mining industry which is very capital intensive; and farm works deductions which was introduced in 1985 to encourage investment in the agricultural sector. Export promotion incentives programme has three main schemes, which include the EPZ, Manufacture Under Bond (MUB) and the Tax Remissions and Exemption Office (TREO). The objective of EPZ's is to generate and encourage economic activity and foreign direct investments while MUB and TREO regimes were meant to encourage investors to manufacture for export within the country, Githaiga (2013).

The **Rwanda** fiscal policy provides various tax incentives with the aim of enhancing business and foreign direct investment. The Rwanda investment board provides tax incentives such as accelerated depreciation of 50% for investment in new or used assets, preferential corporate income tax rate of 0 and 15% for the registered investors, tax holidays of seven and five years. In addition to tax incentives provided in the investment, there are a number of tax incentives provided in the fiscal tax law. These include loss carried forward for a period of five years, exemption of some income and allowance of some expenses like research and development. All these incentives are aimed at promoting businesses in Rwanda, MINECOFIN (2012).

SMEs play a very important role in many developing countries. Young (2009) observes that especially in the developing countries the health of the economy as a whole has a strong relationship with the health and nature of SMEs. In Rwanda, the SMEs contribute more than 60% of new jobs created. Due to the importance of SMEs to the Rwandan economy, the Government of Rwanda has made notable intervention by putting in place measures like the Umurenge SACCOs that are geared towards promotion of and development of SMEs, MINICOM (2016).

However, despite the importance of sustainability and continuity of SMEs, studies solely focusing on whether tax incentives affect the growth of SMEs in developing countries particularly Rwanda seem to be very limited and scarce. It is within this context that researchers want to investigate the effect of tax incentives on the growth of SMEs in Rwanda.

TAX INCENTIVES THEORY

UNCTAD (2003) defines tax incentives as instruments that reduce the tax burden of any party in order to induce them to invest in particular projects or sectors. There are exceptions to the general tax regime and may include reduced tax rates on profits, tax holidays, accounting rules that allow accelerated depreciation and loss carry forwards for tax purposes, and reduced tariffs on imported equipment, components, and raw materials, or increased tariffs to protect the domestic market.

The budget deficit of a government is a form of a negative saving and a reduction in the deficit can positively influence the net national savings more than any feasible changes in tax policies and encourage savings within an economy, which will then stimulate investments, Goolsbee (2004).

Keen (2013) defines tax incentives as all measures and strategies that provide for more favourable tax treatment to certain activities or sectors. Keen (2013) went on to describe the following to be typical tax incentives:

1. **Tax holidays:** is defined as the temporal exemption of business investment from certain specified taxes, typically at least corporate income tax. Partial tax holidays offer the reduced obligations rather than full exemption.

2. **Special zones:** are placed in geographically limited areas where qualified companies can locate and hence benefit from the exemption of various scopes of taxes or administrative requirements.
3. **Investment tax credit:** this is the deduction of some fraction of an investment from the tax liability
4. **Investments allowance/Accelerated depreciation:** is the deduction of some fraction of an investment from taxable profits (in addition to depreciation).
5. **Reduced tax rates/Preferential tax rates:** are the reductions in a tax rate, specifically the corporate income tax rate.
6. **Exemptions from various taxes:** are the exemptions from certain taxes, most of the time those collected at the border such as tariffs, excises and VAT on imported inputs.
7. **Financing incentives:** are the reductions in tax rates for the funds providers, for example: the reduced withholding taxes on dividends.
8. **Loss carried forward:** when the business makes a loss, the loss can be carried forward to offset the future profits of the business.

CONCLUSION

Clearly tax incentives are germane to the growth, development and continued sustenance of small and medium enterprises. However, most of the tax incentives that are available in the tax law are not enjoyed by SMEs. It is only the large taxpayers that enjoy most of the tax incentives. Tax incentives play a vital role in ensuring that small and medium enterprises thrive because the government has made available tax holidays for pioneer companies, and the government also grants a number of general and industry specific incentives. Finally, for many SMEs, the decision to remain informal is deliberate because the cost and procedural burden of joining the formal sector outweigh the benefit of staying in the informal sector.

Informal sectors make large contributions to economies of nations, in both human and financial terms. But being visible to government agencies and formal sector companies, they can be easily reached with capacity building improvement schemes. However, they cannot compete for business with larger companies and thus there is a need for governments to accelerate their growth by creating an enabling environment for them via appropriate tax incentives to enhance their sustenance and growth.

RECOMMENDATIONS

1. Government can address the need for start-up funds for SMEs by providing incentives for funding.
2. People should enlighten themselves appropriately on the form of business they want to embark upon by going for entrepreneurial training programmes to make them better equipped before venturing into it.
3. There is a need for the government to employ tax holiday as a major tax incentive for newly established small and medium enterprises because it stimulates their investing power thereby exempting them from other tax liabilities.
4. Government should promote the growth of small and medium enterprises by creating the necessary enabling frameworks and relax the burden of regulating measures and ensure that their efforts are geared towards granting tax incentives to micro, small and medium enterprises.
5. Building SMEs' capacity through the localisation of supply chains requires leadership from the top. Localising values creation through engagement with SMEs is a key achievement that large corporations can contribute, and this would bolster their license to operate by creating a positive local impact, considering partnership across segments, sharing business planning skills, et cetera.
6. Small and medium enterprises should emphasize on tax incentives so that their operations continue to be more efficient and effective.
7. Government should make campaigns to explain the role of taxation on development of countries and help small and medium enterprises to understand tax laws in Zambia.

Putting all these measures in place will go a long way but it will ensure that tax incentives granted to SMEs have a significant impact on their growth. ■

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Joseph Mulaisho (Mse Economics and Finance)

AIMING HIGH

By the Accountant Writer
Picture by George Lonswana

BONNA Kashinga is new Secretary and Chief Executive of the Zambia Institute of Chartered Accountants (ZICA). He has taken over from Mr Hapenga M. Kabeta, who retired from the Institute last year on December 31st after a decade at the helm. Mr Kashinga took over the reins in a seamless transition.

But who is Bonna Kashinga, anyway?

The Accountant Journal now unpacks the new captain of this sailing ship – ZICA.

From the horse's mouth, he is a lot of things. He is the first born in a family of seven children five ladies and two gents.

He was born in Lusaka 41 years ago to Melody Beatrice Kashinga and Abraham Zulu. His mother and father divorced during Bonna's adolescent years. Bonna remained in his mother's care.

"My mum has essentially been one of the key driving forces and pillar in my life. I grew up in a secure & protective single parent home well into my teen years," he says, reminiscing his childhood in Avondale where his mother, then a Zambia Airways employee, was domiciled.

His mother was very focused on giving him a good educational and Christian foundation.

"I grew up with books. For a fairly long time, I was the only child. In fact, I was the only child up to when I was 16 years old. So during those formative years, it was largely my mom and books," he explains.

Bonna is married to Musoli Muchima Kashinga, a land & real estate economist, and they have three daughters (Jemimah-Grace, Jemuelle-Zangi, Joanna-Mataa).

Both Bonna and wife were at David Kaunda Technical Secondary School, but were not friends then. Their journey to getting married started in 2006. She was a lecturer at the Copperbelt University then and he was just about to leave for the United Kingdom for his masters degree programme. Bonna was selling off his household goods, somehow Musoli become aware of this and expressed interest in a home theatre music system that he was selling. On meeting, the two become friends and the rest is truly great history! Young Bonna attended Chelstone Primary School, St Patrick's in Gwembe District, Lusaka Boys, Kabulonga Boys Secondary School, St Edmonds in Mazabuka and eventually David Kaunda Technical Secondary School where he completed his Grade twelve in 1996.

"From David Kaunda, my journey into the next chapter of my life is a combination of interesting occurrences. All things remaining, I should have probably been either a medical doctor or an engineer. My favourite subject was Physics. I won quite a number of JETS (Junior Engineers, Technicians and Scientists) related awards for physics. It was a conflict all the time between physics and med school. An uncle of mine, Professor Mwandila, a medical doctor, inspired me towards medicine," he explains.

During his years at David Kaunda (DK), students were quite insulated from the world of accountancy and commerce as the school focused on science & technical courses. His careers master, a Dr Imasiku, talked to them about opportunities of pursuing accountancy studies at Zambia Centre for Accountancy Studies (ZCAS) which had established an accelerated route for top students in Zambia to simultaneously acquire chartered accountancy and bachelor's degree qualifications. His class did not know much about the profession but they got interested, bolstered by some students ahead of their intake who went to ZCAS.

"It actually became a strange occurrence and we would ask ourselves why a guy who was the best in science olympiads at country level would go to a college. For a DK student those days the higher education goal was either the University of Zambia, CBU, A-level studies at Mpelembe Secondary School with its route to the UK for engineering studies, it seemed these were the only institutions in the country."

Curiously, young Bonna talked to Dr Imasiku, who told him ZCAS was looking for students with distinctions and merits, no more than twelve points in five subjects for them to take aptitude test tests towards enrolment with a scholarship.

However, young Bonna was accepted at the University of Zambia. But in 1997 UNZA was closed for eight months following disturbances and his parents advised Bonna to test the waters at ZCAS and see if he would like it, otherwise he could still go to UNZA once it reopened. ZCAS at the time offered an Irish Bachelor of Arts with Honours in Accounting and Finance and was looking for students with distinctions from Mpelembe, DK, Hillcrest & other schools.

Young Bonna took the route and was never disappointed.

"That was how I got into the world of accountancy; a very disciplined world. Literally you felt the energy of the place, ZCAS," he says.

"I can't look back to something I did at senior secondary school connecting to what I was doing at ZCAS. I had no background in commerce or accounting. For me it was jumping into an unfamiliar subject area. The only skills I brought from my DK era was mathematics, English & critical thinking. At least the subject of finance and accounting is written in English; that was about it, everything else, I was learning for the very first time - debit and credit, trial balance, everything was new."

At ZCAS, Bonna stayed the course, never allowing failure to stare in his face and through much study and by God's grace, he found his feet very quickly.

Bonna was on a merit based scholarship, renewable only upon achieving good grades.

"That was some kind of pressure right from the beginning. We finished four years and I have never looked back on that decision. It was a great decision I made. For me I still have that very curious and analytical mind of a physics enthusiast. I still invent solutions to address physical challenges in my world, especially around my hobby property development," he says.

Bonna did his Master of Science in Development Finance at the University of Manchester UK, which was a leap into the unknown but he had good grounding given his background at ZCAS, including his work at Bank of Zambia.

"I had a good insight into how an economy operated, how a financial system operated and these are some of the things I explored into greater depth at the University of Manchester," he explains.

After ZCAS, Bonna had an excellent stint with Deloitte and Touché where he had an opportunity to have a view of numerous industries.

At Deloitte, Bonna worked with the immediate past Director of standards and regulations Mr. Chansa Chiteba.

Being part of the audit team gave him understanding of how companies operated.

At Deloitte, he was appointed as an ambassador for the global excellence model and had chance to be trained as such in East Africa.

He also had chance to look at businesses like Agriflora, one of the biggest growers of rose flowers then, but now defunct. His work covered energy corporations, commercial farms, transport & logistics companies, NGOs, mines and financial institutions, among others.

"For a fairly short time, I had a feel of what I needed to give my career a reasonable footing in the world of finance & business. So after a period with Deloitte, I left and joined the Bank of Zambia in 2002 as an Inspector Financial Analysis within the financial system supervision department supervising a diverse range of non-bank financial institutions," he explains.

"It was also an excellent place to work, having a view of how financial systems operated and simultaneously evaluating institutions with varying business models and attendant risks from bureau de changes to development banking institutions, that was exciting and challenging in equal measures."

Joining the Bank of Zambia (BoZ) gave Bonna an opportunity to participate in huge projects, one of which involved automating the risk analysis platform for the central bank, which gave an early warning system for a financial institution on risks central bankers needed to keep a close eye on such as credit risks or market risk that might, over time, escalate.

"That was a major national and SADC project. At the time it was involving eleven central banks in the SADC region and for Zambia, I was one of the lead persons on the technical side. I was actually putting together the risk automated analysis system together with a colleague of mine who is now chief risk officer for Barclays Bank Zambia, Mr. Colin Chasha, a senior member of the Institute. He was dealing that for banks, I was dealing it for non-banks. It was a huge responsibility, I was still under 24 years but I was able to command the trust and the respect of those who were my superiors," he says.

After sometime, Bonna desired to further his education. The British Council then used to communicate available scholarships and he applied for the Bank of England Developing Country Education (DCE) Fellowship..

"I was one of the last two global Bank of England DCE Scholarship recipients. I left on that fully paid scholarship, for the UK at University of Manchester," he explains.

"I enjoyed the transition from finance into development finance & economics. I had a flawless experience and limited challenges with the material. I graduated on time. Because of home sickness, after completing my taught courses, I decided to return to Zambia 4 months before completion of the program and complete my thesis from home, which I successfully did with flying colours. I had other priorities by then, pursuing a budding relationship with my girlfriend then, who is now my wife." Bonna explains.

"I emailed my thesis to the university and I didn't even go for my graduation but I graduated with honours," he says.

Once he was done with his Masters, Bonna returned to his job at BoZ where he served for a total period of seven years before he left whilst serving as acting senior inspector, financial analysis.

He then joined the commercial banking sector which he was familiar with from a regulator's point of view.

"After eight years, I had done my stint at BoZ, I had been involved with all kinds of projects, internal back of the engine projects that would help the central bank to do things smarter, quicker and I was also involved with frontline projects that were helping the sector to adopt, adapt and have better risk models and so on and I felt it was time for me to cross over to the frontline proper," he says.

Bonna left BoZ in 2009 and joined Stanbic Bank as Compliance Manager. He helped the bank navigate through difficult and turbulent times.

"If you look back at that particular period, that was the period in which capital adequacy requirements for banks moved from something like US$2m to about $20 million. All banks had to figure out how to meet the capital adequacy requirements, that task was even more daunting for small local banks who could not call on group resources," he explains.

"I am proud that I was involved in finding some of those solutions for my bank at the time, a combination of financial engineering with some capital injection."

After three years at Stanbic Bank, Bonna decided to apply to Harvard University, USA, for further studies and he was picked for a prestigious double programme – Master of Public Administration (MPA) with a major in finance and strategy and also a fellowship called Edward Mason Fellowship in Public Policy and Management.

"You needed to be able to clear both," he explains. "It was a bit pressuring; by that time I was a married man, having married my wife in 2008. So I was going at that time fully settled in that important aspect of life."

Bonna left for the USA in 2012 for the MPA programme, which admits very senior, accomplished mid-career persons.

He was not picked on his first attempt because he was not yet the typical mid-career person, expected to be at least aged 40. He was in his early thirties and was short by two months of the required ten years of mid-career experience.

The selection criteria were explained to him and he was later to discover that his class composed of individuals with varied backgrounds which included those with multiple doctorates in advanced sciences, others coming out of NASA, even a US SEAL, former ministers, politicians including a former presidential candidate from Senegal who was a career senior IMF economist. The list was endless of these very intimidating personalities.

"These had the credentials, they had the time in the public sector, the private sector, they were chief executives, board chairpersons of multinationals, you name it and I was essentially a person from the Zambian banking sector having looked after a lot of things but seemingly not measuring up by these ranks. So it was quite a bit of a shake-up but I was determined," Bonna says.

Following the advice of a former DK alumni, mentor and senior member of the Institute, Mr. Chishimba Yumbe, who had gone to Harvard to do the same programme, Bonna re-applied the following year and he was accepted.

"They gave me some of the profiles of some of the alumni, a couple of former and current presi- dents, including former Liberian president Ellen Johnson Sirleaf and I think the Singaporean Prime Minister and many other names, including the founder and President of the Global Economic Forum. So I said to myself 'this is a league of fairly interesting characters; I don't think I fit in there but I have been accepted into the program and I am going for it'," he remembers.

"Of course, I was quickly brought down to earth, the program fee was US$100,000 and the offer was given to me in March and I needed to demonstrate that I had that money in my account by about 7th of April that same year. The roller coaster of emotions, I had gone to the heights of joy and I quickly descended into despair within seconds of opening my acceptance letter. I couldn't believe the bill and the fact that I needed to demonstrate that I had this money in about three weeks."

So Bonna applied to defer entry to the next year to enable him support his wife who had just delivered their firstborn daughter and Harvard University granted his request.

The year went by fast and again he requested for another deferment because he was just settling in a new job at Stanbic, he was allowed a second and final deferral with a clear indication that he would lose his place if he failed to report in 2012.

"There is a saying at Harvard that the hardest thing about Harvard is to getting in, this is usually due to the competition and often huge financial costs involved with paying for a Harvard education. Once you are in, its fairly manageable because the system will support you adequately," he says.

Bonna's next hurdle was how to raise the bill to finance the studies. He had to dispose-off a house and by God's grace, Stanbic Bank encouraged him to go and guaranteed him a job on return.

"That was my managing director then Mr. Dennis Kennedy, a very supportive gentleman and he is the one, together with Mr Danny Luswili, a senior member of the Institute, who literally said 'we cannot lose this opportunity with you, this opportunity comes once in a lifetime, we want you to go and we want you to come back'." And so they packaged a very wonderful educational loan for me, never done before that. The whole US$100,000 was covered by Stanbic. "By the time Harvard University asked me to confirm my financing for the 2012 intake, I had the money by God's grace and favour," he explains.

Harvard also gave him a scholarship called Harvard Kennedy International Merit Scholarship of about $60,000 dollars, fully covering his tuition. The two packages enabled him to be comfortable despite not having a salary for the duration of his one-year studies at Harvard.

"For me, the lesson there is that the most critical thing is not necessarily that you have the financing upfront, it's whether you have the idea and the drive. Most of the times the idea gets funded by someone who sees it and believes in it," Bonna says. "So if you don't believe in yourself, right there, you actually have 90 percent of the problem. The funding is not 90 percent of the problem, it is 10 percent of the problem. That has always been my approach. Always be confident about what you do, be modest about it, be humble, try and get help from people who have gone before you, who may have ideas, no need of making the same mistake that others have made. You can always improve on the journeys of others as you are pursuing yours and try and aim as high as you can. At the very least, you will be able to achieve what is considered average."

He says the opportunity to learn from peers was phenomenal. His peers were accomplished with backgrounds as varied as advisors to Presidents or Prime Ministers others were accomplished scientists.

For Bonna, there was no opportunity to waffle through anything at Harvard. You had to be on point with your A-game nearly all the time. It was demanding but very enjoyable," he recalls.

Bonna graduated with mostly A's.

Upon his return from school, Stanbic moved him to the front of the business, appointing him Head Private & Executive banking, a position he held until he left the bank in 2015 to join First Quantum Minerals as Project Head of Quantum Home Loans, a 100% housing finance subsidiary company with a multi-million US Dollar asset portfolio under the Kabitaka Housing Development Corporation and Kalumbila Town Development Corporation.

"And it was another move which I could clearly see was not necessarily the ordinary path for my career. I had jumped into another new sector. I was learning new stuff. I faired very well in there. By the time I was leaving, we had a very well defined business model which was a first of its kind Rent-to-Own model passing houses that FQM build to members of staff, a very innovative model whereby members of staff are paying a monthly rental and out of that, some part of it goes to acquisition of the house, utilities and over a 15 year period you get the title deeds, no hustles," he says. "That still remains one of the most innovative housing products within Zambia that has been developed."

Bonna was also representing the business interests of Kalumbila Town Development Corporation.

"In Kalumbila district, FQM has literally built a new town called Kalumbila town from scratch. Where there was forest and bush, you go there now, you will find Zambian's newest town with a second or third longest tarred airport runway, almost 3.3 kilometres runway, probably longer than Simon Mwansa Kapwepwe International Airport in Ndola, it can land pretty much any jet there. There is an eighteen-hole golf course with residential golf estates within an integrated game reserve boasting of zebras, impalas, wildebeests & others, fantastic large Musengezhi dam where you can do fishing, speed boating. It's completely a different place, you arrive in there after travelling a hundred and sixty kilometres from Solwezi or flying an hour from Lusaka and you are surprised at the order. I am happy that I was part of that particular development miracle."

Bonna recalls President Edgar Lungu's remark during his visit there in August 2015, that Kalumbila town is Zambia's best town and is the best place for somebody to bring up his family.

"It is orderly, it is progressive. Nothing in there happens haphazardly," he emphasises.

In 2016 Carl-Johan Collett, the director who head hunted him into First Quantum, left FQM and went to set up his own firm called Urban Africa Real Estate Group (Urban Africa).

Carl-Johan invited Bonna to join him as one of the partners and he bought into the idea.

"Urban Africa is one of the companies behind the Urban Hotel on Ndola Golf Course; this is a 60 capacity key hotel, which will be expanding to about a 120 rooms at full development, co-financed by institutional pension funds. Urban Africa was also a shareholder and asset manager of Ndola Square which overlooks Kafubu Mall," he explains.

"As a lean team, we did quite a number of innovative things and helped clients deal with multi-million dollar property acquisitions."

In July 2018, they produced a definitive property report, the Lusaka Real Estate Market Report 2018, which dealt with what was happening in the property market in Lusaka in terms of where the market was going and where people were losing money, and where the likelihood to make money is, where the opportunities were, how to finance, and financing opportunities that banks were not paying attention to. That report was subsequently followed up by the Copperbelt Real Estate Market Report 2019 produced by Urban Africa.

Bonna's avid passion for property development is his lifelong hobby, one he shares with his wife.

"That was a huge growth opportunity. I have been able to quickly adjust and thrive in different sectors driven by willingness for constant learning and growth underpinned on multi-disciplinary critical thinking skills which help me to solve problems. Above all, I have faith in God who directs my path," he says. Bonna in 2018 took interest in the CEO search by ZICA as he felt it was time for him to move in the direction of financial public policy and education management, which the ZICA role provided with property investment as an additional attraction. He describes his leap into the ZICA CEO role as a kind of homecoming and he is loving it.

He says the accountancy profession is a key pillar of any economy.

"The profession now is at the centre of boardrooms making decisions about economic activities at macro and micro levels. That's why you see even at government level there is recognition of the importance of the profession; you have directors of finance being elevated to the right places and the roles of Accountant General and Controller of Internal Audits elevated to permanent secretary positions. This is because the profession develops and provides the executives, the people who make the decisions in institutions and also at national level on how to spend what is typically very limited resources, how to optimise and get the highest value. How do you also carry along the human factor? And so the profession has to balance all these things, getting the best numbers by optimising resource utilisation but also getting the best outcomes by ensuring that you are factoring in the human development angle into the way you think."

Moving forward, Bonna sees more technology being embraced for service delivery and value creation by ZICA.

He says this would revolve around working smarter with technology to get the best outcomes.

In the next five years, Bonna predicts some turbulence across the business and economic spectrum, therefore highlighting the need for people with foresight to see correctly.

"But it also requires you to be well read and keeping in tune with what is happening. It also requires people who will be capable of dealing with change. Change is inevitable and a lot of change is approaching us and you need to be able to find your balance very quickly and steer the boat. Some of the change comes from issues to do with sustainability. Lots of questions are being asked on how corporates and nation states conduct business, whether sustainable or not." Bonna says.

He considers the accountancy profession to be uniquely poised with a multi-dimensional, multi-sectorial, multi-skilled toolkit; giving one a good grasp of the drivers, trends and dynamics that are driving changes facing corporates & nations and how to steer through such rapid changing environments.

"These are skills sets that other professions don't get to experience. So we are fortunate in that sense but to whom much is given, much is expected. As a result, we need to not only continue to be leaders but we need to be relevant transformative leaders of industry and commerce and I would also add the public sector," he says.

Bonna gives clear headers for the Institute in terms of what to expect in the next five years.

He expects the Institute to continue on its transformational path.

"We're on a digital transformation journey. For me we need to interface much more through digital channels," he says. "That brings in the inbuilt controls, it brings the ability to reach further in our service delivery, value creation and how we do business with members, students and all other stakeholders. That is what we want to be."

Bonna says ZICA's ambition is to be relevant to its students. He further indicates the continued need to increase the Institute's partnerships with Government and practice, industry and commerce as key priorities he is looking at.

"We must be relevant to all of these stakeholders; partnerships with other knowledge-based organisations, and global accountancy organisations. For me it is increasing our place within the public space in Zambia and within the framework of Pan African Federation of Accountants, the International Federation of Accountants (PAFA), the Chartered Accountants Worldwide (CAW); us having a bigger voice, us being able to showcase how we have done things that others can be able to learn from - knowledge sharing," he says.

"Diversification; we need to be able to diversify from our traditional lines of revenue earning into other areas. And here we are talking specifically of a very ambitious property investment programme that we are rolling out. That ensures that we can be able to pass on the benefits of a diversified institute to the membership: invest more into relevant technology, invest more into programmes that are relevant to them, invest more into staff, making sure that we are able attract and retain top talent and also invest more into applied research that is able to answer the questions that the public sector and industry are looking for."

On the property side, Bonna highlights the US$200 million the ZICA Shungu Namutitima International Convention Centre in Livingstone envisaged to have a five-star hotel, a three star hotel, a 5,000 seater international convention centre, an 18-Hole championship golf course, 10 Presidential villas, and the Ferris Wheel, which is key to the Institute's diversification agenda.

"This is a massive undertaking, we need to be able to land these projects. We have a fairly massive project right here at Thabo Mbeki where we are as well," he says.

Bonna is confident members will come on board the sailing ship.

Bonna encourages members not to be bystanders as they have an opportunity to invest alongside the Institute. "This is essentially their cake, we would not want them to lose it, we would want them to take a big bite whilst the opportunity is there," he says.

"Naturally, any good thing sometimes attracts the neighbours and we can say for a fact that we've got "neighbours" enquiring about how they could partner with ZICA on its property developments. So I wish to take the opportunity to appeal to our members that they should take keen interest and read the communications that will be coming out on these because very clearly the ship is sailing," he emphasizes.

Bonna says he is keenly focusing on refreshing the value proposition for ZICA members, which will be very relevant to their life cycle needs.

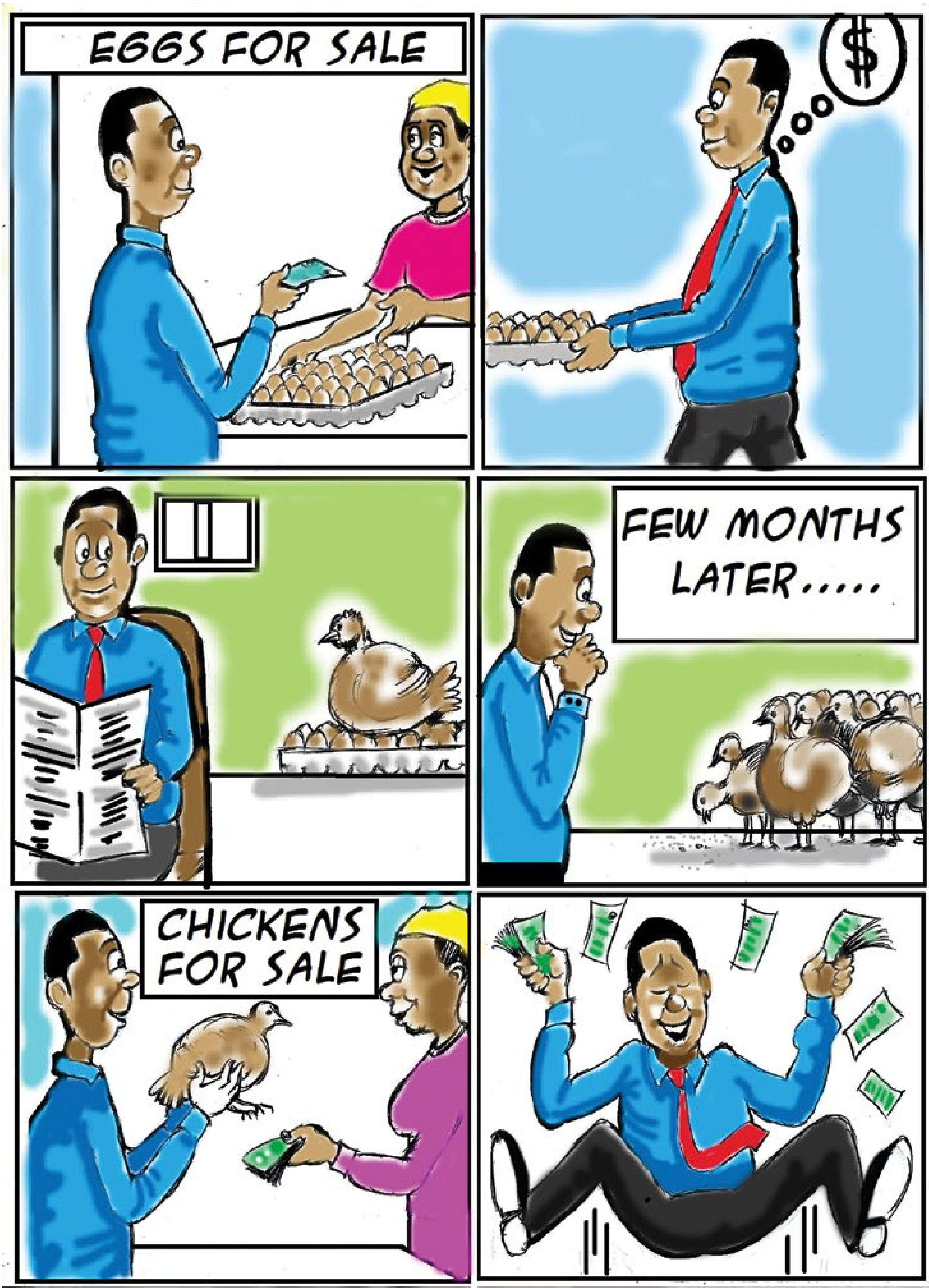
"We need to meet the life cycle needs of our members whether for personal or professional development. How can we be able to use the good will of the Institute to get opportunities for our members from the market? If it's lifestyle needs, are we able to strike deals that will be beneficial to our members and we can make them available to them. If it is CPD that we design, who do we collaborate with to deliver the best learning programs and how do we provide for members' growth. It's one thing to get your qualification and experience, it's another thing for you to stay at the cutting edge of things. We are doing a rethink of all of that. We must also do a deep soul-search on how we can bring more female members into the profession and into greater leadership roles, the whole nation development agenda rises and falls on the greater female empowerment agenda. For students as well, we are trying to think through how we can remain relevant to them as industry and commerce define what skills sets are required." Bonna has also set his mind on the Institute improving collaboration with the Government as the biggest supplier, customer, employer, and largest economic agent.

"We need to be relevant to the national development agenda," he says.

He emphasizes that the Institute frowns upon those holding out and practising without authority and licence.

"We want to make it impossible for people to continue holding out as accountants. We want to start tightening the net through very innovative co-operation across various lines so as to capture as many people in the net as possible. We will collaborate with other regulatory authorities and other industry players to clamp down on holding out and other illegal practices," concludes Bonna.

So this is Bonna Kashinga.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EXPLORING THE LINK BETWEEN RISKS AND CONTROLS

By Daniel Kalwiji

THIS article explains the link between controls and risk management. We explore three (3) characteristics of controls and pinpoint exactly when and where they are considered when operating the risk management system.

Control refers to measures taken to bring actual performance in line with expected performance. When revenues are lagging behind those budgeted, a company may decide to offer price or quantity discounts as a measure to encourage clients to buy more.

The term expected performance includes revisions made to the original plans in light of latest opportunities or unfolding negative performance.

There are different types of controls such as predictive, detective and preventive controls. Preventive controls seek to ensure undesired events are not allowed to occur. Detective controls seek out undesired events and immediately raise alarm. Predictive controls are advanced and ensure future changes are reflected in current activities.

Controls are designed to operate effectively throughout the relevant control period.

Three (3) aspects come out of the statement above. The fourth (4^{th}) aspect relates to the economics of controls and basically means that controls must be cost effective.

DESIGNED FITNESS

Controls are designed to meet specific and general objectives. Each control has one or more objectives. Typical objectives can be classified as prevention, detection and preservation. The objective of a bank reconciliation is to detect omission, error or fraud. A bull dog is trained to prevent, detect and arrest intruders.

EFFECTIVE OPERATION

Controls are also designed to operate effectively. This means the control must meet the intended objectives. The bank reconciliation aims at detecting error or fraud. Therefore, bank reconciliations are used to match the transactions captured in the accounting system to those independently reported on the bank statement.

Accountants then ensure that the control is effective by matching like to like. It is when performing reconciliations that error conditions must be discovered. Typical errors are mistakes in capturing details such as cheques number, payee, amounts. These are posting errors in the ledger. Omitted transactions are also discovered and so are duplicated entries in the ledger. Similar errors can be made when banks post transactions. However, Fraud tends to occur where income is omitted or understated, commonly known as unbanked income or underbanking respectively.

As for payments, overstatement in bank statements or debits not authorised by the company would normally amount to fraud. This is because cash like fixed assets is a real asset that **cannot** change form or content without cause. Cash can just disappear or appear without proper procedures being followed.

CONTROLS MUST OPERATE THROUGHOUT THE CONTROL PERIOD

Effective controls are active throughout the period. This enables corrective action to be taken there and then. Good controls operate consistently and objectively without selection. A modification will be an override to allow for exceptional events but these must be authorised by designated officers and automatically reported or disclosed according to policy.

Electronic controls or computerised controls can be put to sleep to save power but are awakened by sensors to act immediately intrusion is detected.

Similarly, bank reconciliations must be performed at least once a month or whenever data and time is available.

CONTROLS MUST BE COST-EFFECTIVE

Designing and operating controls must be cost-effective. The benefits derived from controls must be greater than costs.

Special consideration needs to be given to controls imposed by statutory or regulatory means. The cost of non-compliance tends to be higher than actual costs. To ensure compliance, negative rewards for non-compliance tend to increase upwards.

Risk can be defined as anything that eliminates or reduces value. This happens when events take place that frustrate the achievement of goals set by an entity.

Risk management system on the hand refers to the system for identifying, assessing, responding and monitoring risk.

Included in risk management is the stage where identified risks are assessed by a process involving analysis, measurement and evaluation.

RISK MANAGEMENT

Risk management involves identification, assessment, mitigation, and monitoring the risk.

Risk assessment in turn involves analysis, measurement and evaluation of risk. When analysing the risk, you are obtaining an understanding of consequences and their likelihood of occurrence and the number of times each consequence occurs.

The next stage of risk assessment leads to measuring risk in terms of the size of every consequence analysed and number of times that each consequence occurs.

Evaluation of identified and measured risk is the last stage of risk assessment. Evaluation involves measuring the significance of a risk against some criteria that scales up against some acceptable level.

The first step in risk evaluation involves separately comparing the severity against a scale of consequence and its associated likelihood. This is sometimes referred to as risk tolerance.

Risk treatment is the next stage in risk management after risk assessment. Risks are treated according to the size, likelihood and impact.

INHERENT RISK AND RESIDUAL RISK

Inherent risks are prevalent before consideration of any controls. While residual risks are risks that still exist after application of controls.

RISKS AND CONTROLS

When undertaking the initial risk evaluation, risk analysts will usually evaluate inherent risk and residual risks and rank them accordingly. The next will be to evaluate the effectiveness of existing controls. This leads to development of more effective controls. Residual risk is re-measured, evaluated and treated to ensure risk is within acceptable limits.

Controls, therefore, are measures taken to reduce risk to acceptable levels. The objective of controls therefore, is to eliminate, transfer, share or justify acceptance of events that reduce or eliminate opportunities to grow value.

CURRENT STATE OF ZAMBIA'S OCCUPATIONAL PENSIONS INDUSTRY – PROSPECTS AND RISKS

By Francis Kaunda (Senior Actuarial and Investments Analyst – Quantum Consultants and Actuaries)

Zambia's occupational pensions industry is poised to grow further particularly with the current talk about the introduction of micro pension schemes, which will greatly insulate the people in the informal sector against old age poverty. As at 31 December 2018, Zambia had 245 occupational pension schemes with a total membership of 107,443 (PIA 2018 Quarter 4 Pensions Industry Report, 2018). Additionally, there is a talk about the pensions sector to engage with the government of the Republic of Zambia in the Public Private Partnership (PPPs) arrangements to accelerate infrastructure development and job creation. To reduce investments risks particularly concentration risk, the Pensions and Insurance Authority (PIA) passed Statutory Instrument (SI 141) in 2011, which has really proved to be very effective as far as diversification of investments of pension funds is concerned. In spite of all these positive developments, there are some risks that the industry should be aware of that should motivate an informed debate among the trustees and management of the pension funds as far as mitigating them is concerned. This article discusses the prospects and risks in the current state of Zambia's occupational pensions industry from an actuarial expert's perspective. The article will provide helpful insights to the accountants, economists and business professionals who are working or want to map a career in the pensions industry in terms of the problems they will be expected to solve. Firstly, the article discusses the current arrangement of Zambia's social security system and the importance of accelerating the introduction of micro pension plans for the informal sector.

ARRANGEMENT OF ZAMBIA'S SOCIAL SECURITY SYSTEM

The social protection system in Zambia is a 2-tier arrangement, which consists of Contributory Schemes and Non-Contributory Schemes. Contributory Schemes are financed through payroll contributions and cover employees in the formal sector. Contributory Schemes consist of National Pension Scheme Authority (NAPSA), Local Authorities Superannuation Fund (LASF), Public Service Pensions Fund (PSPF), Worker's Compensation Fund Control Board (WCFB) and Occupational Pension schemes which were 245 as at 31 May 2019 (PIA quarterly reports, 2019).

The Non-Contributory Schemes consist of tax-financed programmes and are meant to cover the extremely poor (poverty targeting), the elderly (60+ years and children under the age of 5.) These social assistance schemes include Social Cash Transfer, Child Grant and Social Pensions and Public Welfare and Assistance Scheme (PWAS).

NAPSA targets the salary at retirement to be replaced up to 40% by a pension an individual will be getting post-retirement (Income Replacement Ratio of 40%). With the current national earnings which are relatively low and the tendency of dependency burden increasing as one retires (usually a retiree will be looking after a large extended family and grand children), a 40% Income Replacement Ratio (IRR) is too small to give an elderly person a decent post-retirement living standard. Also the Non-Contributory Scheme is suffering today because of the larger-than projected government fiscal deficits, which have been propelled by a robust infrastructure development programme. For these reasons occupational pension schemes act as supplementary pension arrangements, which augment the state pension arrangements.

MICRO PENSION SCHEMES – A WAY TO GO FOR ZAMBIA'S INFORMAL SECTOR

Poverty levels in Zambia are still very high, averaging more than 60% of the population (more than 60% of Zambia's population live on less than U$1 a day). Additionally, about 54.3% of Zambia's labour force is employed in the informal sector (2017 Zambia Labour Force Survey, 2018). Because the informal sector largely does not have pension arrangements, there is a need to accelerate the introduction of micro pension arrangements, which will greatly insulate the informal sector against old age poverty. The failure to implement micro pension arrangements will result into a strain on government coffers to look after the elderly when in fact today they can be encouraged to save for retirement through micro pension arrangements. The success story of micro pension schemes in Kenya and Nigeria should motivate the government to look into this huge untapped potential.

PROSPECTS AND RISKS IN ZAMBIA'S OCCUPATIONAL PENSIONS INDUSTRY

As discussed in the introduction, the occupational pensions industry has got a lot of prospects for growth. The industry has kept on attracting more growth particularly with the addition of one pension administrator and two pension schemes in the first quarter of 2019 (PIA Quarterly Pensions Industry Report, 2019). This is commendable as poverty in Zambia is largely skewed towards old age, hence the need to make sure the industry grows. However, in spite of this growth, the industry faces some risks that may disturb the positive trajectory growth it has enjoyed in the recent past.

According to the 2018 OECD Pensions Outlook bulletin (2018:3), "People's trust in pensions is low in some selected OECD member and non-member countries. Low returns on retirement savings, less stable employment careers and relatively lack of trust in individuals and institutions managing their pension funds as to whether they have the members' best interests at heart".

In Zambia the biggest risks facing pension funds where most of the above risks are emanating from are low net investment returns and unstable employment arrangements. Micro pension scheme arrangements can greatly eliminate the risk emanating from unstable employment patterns as they have features customised to the needs of people in the informal sector with similar employment patterns. However, for low investment returns risk, a lot of light needs to be shed upon this. Many are the times I have heard members in defined contributions pension arrangements complain of receiving low annual bonuses, which are sometimes far much below annual inflation. Even those members receiving pensions, most of the times the annual pension increases they receive do not give them a full inflationary-protection. ***It is for this reason that if the occupational pensions industry is to grow rapidly and attract a lot of members, there is a need for much attention to be paid to monitoring of investments performance of pension schemes against their established investments mandate.***

Because pension schemes have got long-term investment horizons (people take time to retire), they should ideally give higher returns in the long run because they can take on additional risk in search of higher investment returns. However, there are a few conflicting matters which make investment of pension funds really tricky, requiring a close collaboration between accountants and practical expert actuarial professionals in designing investment strategies. Accountants are specialised in valuing asset classes of a pension fund through preparation of financial statements while actuarial professionals are specialised in calculating the liabilities of a pension fund which are spread into the future and choosing the best asset classes which will best fund those projected liabilities.

Employee benefits financial statements are prepared under IAS26, which prescribes fair valuation. Because most of the liabilities of a pension fund are long term (withdraws, ill health retirements and normal retirements occur in future), the assets that are ideally selected should be long term too. Such asset classes mean long-dated government bonds, property, equities, long-dated corporate bonds etc. To infuse liquidity into the scheme to fund current pension payouts and administration/management fees, a few money market instruments are added to the portfolio like short-term treasury bills, fixed term deposits and cash. The negative relationship between interest rates and bond prices will mean that the scheme will be experiencing fair value gains and losses on its bonds portfolio because of the dynamic nature of interest rates which in turn will affect the investment returns that the scheme will be earning. If future interest rate movements are not well projected and the fund has got a lot of exposure to asset classes that are sensitive to interest rate risk, then the net assets will experience a lot of unpredictable movements. There is also an additional risk of asset-to-liability mismatch. A sharp mismatch between cash flows from assets and cash flows from liabilities will present a very big problem to a pension scheme. The 2008 financial crisis was an example when because of a drop in copper prices at London Metals Exchange, exchange rate increased which pushed up inflation in the import-dependent country. As the central bank was trying to curb inflation, they pushed up interest rates, which presented mark-to-market losses on a lot of schemes, which had a lot of exposure to bonds portfolio. Also low levels of economic growth at that time meant job losses, which caused a financial strain on pension funds through payment of refunds. The end result was pension schemes being forced to sell assets at low prices to get the much-needed liquidity for pension and lump sum payouts.

It is for this reason that a strong collaboration between accountants and expert actuarial professionals working in pension funds is vital for mapping a robust investment strategy that will see a pension fund navigating all these risks. Particularly, accountants will bring on board their knowledge of asset class valuations and nature of cash flows from assets. Actuarial professionals will use their understanding of decrement tables (mortality tables, withdrawal tables et cetera) to inform the nature of pension liabilities and how the cash flows from liabilities are spread into the future. Then asset classes whose cash flows closely match the liabilities cash flows will be chosen. Additionally, various ways of mitigating interest rate risk, exchange rate risk et cetera will be formulated. Some of the ways will involve limiting exposure when conditions point to a high-interest rate environment while calibrating the asset allocation within tactical ranges in order to ensure non-absolute diversion from asset-to-liability matching principle.

Today the biggest risk, which quite a number of schemes will shortly be dealing with is the concentration risk. Because of high yield rates obtaining on treasury bills in the past three to four bonds auctions, a lot of schemes have piled up much cash into treasury bills in order to average up their investment returns, thereby infusing concentration risk into their asset portfolios. However, the recently introduced austerity measures if correctly implemented will mean the government managing to reduce the fiscal deficit, henceforth limiting borrowing needs from the domestic markets. Reduced government participation in capital markets in terms of borrowing will reduce interest rates thereby fostering private sector growth. For the many schemes, which have much money invested in short-term financial instruments like treasury bills will have a lot of cash coming from treasury maturities that will unfortunately be invested at low interest rates. It is for this reason that closely watching the activities of the central government and changes in the global economic trends and the ramifications that these will have on pension scheme assets is very important if a scheme is to carry out a robust investment strategy that ensures good real investment returns being given to scheme members. Also important is a strong collaboration between accountants and actuarial professionals working in pension funds in designing robust investment strategies that will ensure adherence to asset-to-liability matching principle.

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RISK CULTURE
A STRATEGIC IMPERATIVE

Peter Drucker, the Austrian-born American management consultant and author, famously said; "culture eats strategy for breakfast" – and he was right! It is widely held that poor organisational culture played a significant part in the 2007-09 financial crisis and that it remains the root cause of many failings at firms today. Enron Corporation, the energy giant that collapsed in 2001 after a whistle-blower revealed glaring and deliberate accounting irregularities, is an excellent example where those at the top allowed a culture to flourish in which secrecy, rule-breaking and fraudulent behaviour were acceptable.

Corporate culture can be a powerful asset and force if properly understood and harnessed. Can the same importance be attached to *risk culture*? In this article, I explore the characteristics of risk culture, explain why many organisations seem not to realise the importance of an appropriate risk culture, as well as describe what an environment with a good risk culture should look like.

DEFINING RISK CULTURE

Corporate culture has been defined in various ways, including "the collective values, beliefs and principles of an organisation", and, more simply: "what people do when the boss is not around." Culture arises from repeated behaviour which is based on underlying attitudes – how we think shapes our actions. Thus, the A-B-C Model of culture: Attitudes shape Behaviour which forms Culture. The A-B-C Model is also true of organisational approaches to risk management. Risk culture describes the values, beliefs, knowledge, attitudes and understanding about risk shared by a group of people with a common purpose. This applies to all organisations, including private companies, public bodies, governments and not-for-profit entities.

Risk management should not be a separate activity, divorced from the day-to-day management of an organisation. Rather, risk presents both opportunities for, and potential challenges to, achieving strategic, tactical and operational objectives. Strategy is aimed at achieving a set of performance objectives which could be to either meet certain financial objectives or non-financial targets as defined by the organisation. These performance objectives are achieved in the seemingly mundane environment of day-to-day tasks and transactions, underpinned by procedures and policies. Standards, policies and procedures dictate the arrangement and interaction of people, processes and systems in delivering an organisation's set strategic goals. They also help boards and management to define the amount of risk that an organisation is willing to take in pursuit of its objectives. Arguably the most critical element in determining risk tolerance levels as well as the successful operation of policies and procedures is the organisation's risk culture. Risk awareness and how to manage and exploit those risks inherent in business operations and its wider environment, need to therefore, be embedded in all aspects of the management and governance framework of an organisation.

The emphasis on fostering the appropriate risk culture in organisations is growing, with regulators across the world attaching greater importance on a company's ability to demonstrate an effective risk management culture. Developing and maintaining a strong and positive risk culture is important for several reasons, including its influence on business performance, governance and compliance. Risk culture;

- affects risk appetite, including strategic and tactical decisions on how much risk to take in a range of situations and settings;
- influences attitudes towards risk, shaping the way individuals and organisations position themselves towards risk in situations that are perceived as risky but important;
- informs the setting of objectives and strategies, as key decision-makers seek to determine the optimal course in an uncertain environment and context;
- determines the ability to 'take the right risks safely', because it influences the effectiveness of risk policies, procedures and practices; and
- can prevent the appearance of inappropriate behaviours being condoned, which can arise when leaders send inconsistent messages on the level of acceptable risk.

Why then are organisations still struggling to get risk culture right? One inherent problem is that risk culture is not static – it evolves over time as people that shape the risk culture join and eventually leave the organisation. Additionally, the increasingly complex and unpredictable world poses a challenge for boards and managements in setting and maintaining the right tone for an appropriate risk culture in organisations. Accepting the realities of living in an uncertain world is the critical first step towards 'updating the operating system' of how companies view the conditions under which they make decisions; plan forward, manage risk, foster change and solve problems in their businesses.

Focusing only on reducing the risks may in turn reduce the potential for the upside in form of innovation in new markets, products or services. On the other hand, chasing opportunities without a clear understanding of the risks and a strategy for managing them can have dire consequences for organisations when the risks materialise. To build an effective risk culture, companies need to first build risk intelligence in their workforce.

WHAT DOES A GOOD RISK CULTURE LOOK LIKE?

An appropriate risk culture for a company is one that does not condone or encourage imprudent risk taking, unethical behaviour, or the circumvention of laws and regulations, or sound policies and procedures in pursuit of profits or business objectives. A strong risk culture driven by sound leadership in an organisation includes:

Holding employees accountable. This starts with the board, which is responsible for setting the tone at the top and overseeing management's role in fostering and maintaining a sound corporate culture and risk culture;

A commitment to ethical principles, including considering the ethical profile of individuals and wider stakeholder positions in decision making;

Appreciation of the importance of continuous management of risk, including strong understanding of why the organisation exists, clear accountability and ownership for specific risks and risk areas;

Transparent and timely risk information flowing up and down the organisation with bad news rapidly communicated without fear of blame; a culture that encourages people to speak up and is constantly building trust;

Risk event reporting and whistle blowing are encouraged; an environment where people can learn from mistakes and be honest about reporting them;

Appropriate risk-taking behaviours being rewarded and encouraged whilst inappropriate behaviours are challenged and sanctioned;

Adequate diversity of perspectives and beliefs to ensure that the status quo is consistently and rigorously challenged;

An organisation that embraces and rewards ownership and follow up of operational incidents as opposed to compartmental thinking and working;

If not incorporated into a well thought through and implemented performance management system, Key Performance Indicators (KPIs) can be dangerous and perpetuate an undesirable risk culture. They can influence people to perform to the bare minimum of expectations, or if they are incentive driven, an unintended consequence may be that they are incentivised to employ all means necessary to meet their KPIs; and

Embracing innovation and agility: once an organisation is mature enough with appropriate risk tolerance and appetite levels, getting people to "have a go", within the accountable parameters is crucial to move forward. However, if people are too afraid to fail then companies cannot ever hope to innovate and be agile enough to survive.

If an organisation's most important asset is its workforce, then the risk culture is arguably a close second given its strong influence on the way objectives are achieved in organisations.

Risk culture can be a key driver of risk or significant mitigant thereof. The responsibility for building and sustaining a strong risk culture lies in the board and executive management. The starting point in building a good risk culture is to articulate the company's purpose and determine what role culture plays in helping the organisation achieve this. This is followed by a 'diagnosis', which seeks to identify the behaviours that need to be sharpened, the interactions with the most impact and how well these are aligned with selection, training, performance targets, bonus evaluation and other behaviour reinforcing mechanisms. Key to getting the right diagnosis is measurement, because what gets measured and rewarded gets done.

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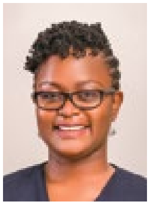

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INTRODUCTION

THIS article is an excerpt of the research conducted by the writer around factors affecting IPSAS adoption preparedness in Zambia. It presents the background and discussions that relate to human resource factors.

BACKGROUND

The Zambian government announced in 2013 that, as part of its public finance management reform, IPSAS will be adopted as its reporting framework by 2020 (Ministry of Finance, 2013; IMF, 2015). Preparation for IPSAS is underway with the Zambia Institute of Chartered Accountants (ZICA) holding sensitisation workshops in 2016 and 2017 on IPSAS implementation (ZICA, 2017). ZICA has continued to hold annual IPSAS workshops for all public sector accountants and auditors. Funding has been allocated by the World Bank to assess the 'Road Map for Zambia' (World Bank, n.d.). The accounts of the Republic of Zambia for the financial year ended 31 December 2016 and 2017 were not prepared in accordance with cash or accrual basis IPSAS.

Challenges facing the transition to sound financial management practices have been recognised in the country. The Auditor General of Zambia reported that failure to collect and account for revenue was a consistent problem, as was a paucity of information on expenditure, assets and liabilities (Auditor General, 2015). Basic financial management controls seem to be lacking, including expenditure that exceeded the budget and spending incurred in contravention of procurement prescripts were also consistent failings. Assets were also not adequately safeguarded, bar coded or recorded in fixed asset registers.

While IPSAS adoption, generally, offers numerous benefits over the medium and long term, it also entails short-term costs, human resources, communication and change management challenges that need to be seriously addressed by the executive heads of all the organisations concerned (Chan, 2006). It also presents many challenges for accounting and financial reporting.

Many studies have been tackling the adoption of IPSAS in several areas of the world in the past few years. Various scholars have written about the IPSAS adoption perspectives in various developed countries and African countries like Ghana, Nigeria, South Africa, Tanzania, Kenya and Cameroon. However, no published scholarly studies have been conducted on the adoption of IPSAS in Zambia and the factors that might impede the nation's preparedness to implement IPSAS in the public sector.

IPSAS adoption is a complex and comprehensive change management process, which requires acceptance by the stakeholders involved to guarantee any success in implementation (Alesani, 2010). Such a process, therefore, requires identification of the factors that could affect the country's preparedness so that adoption planning is benchmarked on such factors. Many accounting and financial reforms delay or collapse as a result of poor or no feasibility studies carried out to examine the factors responsible for the success of the reforms.

IPSAS adoption – Zambian perspective

One of the objectives of the Government of Republic of Zambia (GRZ) in the Public Finance Management Strategy is to enhance financial management systems and standards in order to promote good financial management and corporate governance practices in the public service. As part of the strategies to achieve this objective, the Minister of Finance announced the adoption of IPSAS modified cash basis by 2020 (Ministry of Finance, 2013).

In July 2013, while launching the Public Finance Management Strategy Paper, the then Minister of Finance, Mr Alexander B. Chikwanda, announced the plans for Zambia to adopt IPSAS by January 2020 (ibid). Further, government re-iterated its commitment to this cause through a speech by the then Secretary to the Cabinet, Dr Roland Msiska, during his official opening of a workshop organised by the Zambia Institute of Chartered Accountants (ZiCA) in March 2016. In 2014, government, through the Ministry of Finance, requested for technical assistance from the International Monetary Fund (IMF) to assess the level of compliance of the financial statements with the Cash-Basis IPSAS. From July 28 to August 15, 2014, the IMF Mission held consultative meetings with the Treasury over the implementation of the Cash based IPSAS. The Treasury further made consultations with ZiCA and other stakeholders in this regard.

According to Dr Msiska, IPSAS shall provide the Zambian public sector with a critical platform for accountability and transparency in the utilisation of government resources for supporting sustainable development. Some of the benefits to be derived from the IPSAS include the following:

Effective and efficient management of government assets and liabilities

Provide more useful information that would lead to better decision-making

Generate cost-awareness and efficiency in the operations of government; and

Facilitate improved service delivery to the people of Zambia.

Traditionally, the accounts and financial reports of the Government of the Republic of Zambia are prepared on the traditional cash basis of accounting, which does not provide further information such as that relating to assets and liabilities. Transactions are recorded only when moneys are received and paid within the given period, whether or not the receipts and payments are in respect of goods supplied or services rendered during that period and whether they relate to recurrent or capital expenditure or revenue. The traditional cash basis of accounting only recognises transactions and events when cash is received or paid regardless of which period it actually relates to. Further, it does not provide additional information as it relates to assets and liabilities through disclosures.

Whereas cash based accounting permits simplicity, it is deficient in portraying the true picture of and activities of government entities. With global effort towards harmonised accounting practice, world nations have joined the league either to adopt, adapt or are in the process of converting to international standards. Having uniform accounting practice globally has several advantages, especially the fact that it will enhance public sector accountability, for planning, both at strategic and operational level. However, moving away from such an old and entrenched system, which is dominated mostly by norm, can never be with ease, (Bello,n.d)

IPSAS ADOPTION – GLOBAL TRENDS

The past few years have shown that the global financial system is in need of a variety of reforms (Ernst & Young, 2012). One of the most important aspects is the tendency of reforms in the financial information systems (Christiaens et al., 2013). The government accounting reform is regarded as part of improving information system in public financial management based on accruals as a tool to gain a wider accountability in a democratic system and in a free market (Chan, 2006). The movement to accrual accounting which was pioneered by the developed countries as a part of the public sector reform (Hassan, 2013), placed emphasis on the fact that annual financial statements play a significant role in the accountability of governments to their citizens as their elected representatives (Huges, 2013).

As a result of this wave, the priority of the developing countries was moving from the cash to the accrual basis of accounting (Tudor&Mutiu, 2006). This is largely because both the cash and cash moderated-based accounting do not allow obtaining the necessary information in order to provide better support for planning and managing resources and more generally for the decision-making processes. Inevitably, the International Public Sector Accounting Standards (IPSAS) have become de facto international benchmarks for evaluating government accounting practices worldwide (Chan, 2008). The adoption of high quality accounting standards is essential for transparent financial reporting, strong accountability and good governance. IPSAS are credible, high quality, independently produced accounting standards, underpinned by a strong due process and supported by governments, professional accounting bodies and international organisations (WHO, 2013). Chan (2006) states, in general terms, that IPSAS is the centrepiece of the worldwide accounting profession's efforts to influence government accounting reforms in developing countries.

IPSAS places a great emphasis on government accountability in a comprehensive manner. Therefore, the governments of developing countries have started implementing IPSAS to enhance the credibility of financial information, public trust and attracting foreign investments (SAFA, 2006); and Zambia is no exception.

A study compiled by ACCA (2017) shows that a number of countries across the World have adopted IPSAS and are at various stages of implementation. The study outlined a number of challenges countries across the world are facing in the process of IPSAS adoption among them financial, human resource and communication related factors.

DISCUSSIONS

The main objective of the study was to examine factors influencing the IPSAS adoption preparedness by the public sector institutions in Zambia from the data collected. Specifically, the study found out the extent to which financial, human resource, and communication related factors influence the IPSAS adoption preparedness by Zambian public sector. This section discusses the human resource related factors, which are the main focus of this article.

The study findings revealed that human resources related factors have significant influence in the IPSAS adoption preparedness in Zambia. Human resource related factors had the next highest mean score, after financial related factors, in the descriptive analysis. Availability of an adequate pool of qualified staff with academic and professional qualifications, good experience in public sector accounting, and staff equipped with technical skills enhance the public sector in keeping with new standards and methodologis easily. Further, availability of in-house expertise, training and additional guidance for the interpretation and implementation of IPSAS is more crucial for adoption preparedness and subsequent successful adoption.

Tanjeh (2016), in his study of factors influencing the adoption of IPSAS in Cameroon, found that Staff Training and Recruitment (STR) shows that an increase in STR by one unit would result to an increase in adoption of IPSAS by 0.1067, holding all other variables constant. This positive effect was consistent with the results obtained from Ordered Logit estimations, which also indicated that the likelihood of adopting IPSAS increases with STR. In terms of statistical significance, the result is significant and is in conformity with the a-priori expectation of the functional relationship that exists between staff qualifications and the IPSAS adoption preparedness. This is supported by the work of Lüder (1992), which asserts that the training of administrative/ accounting staff and the recruitment of qualified personnel for top fiscal positions affect their basic attitudes and readiness to contain public sector accounting development. It further supports the work of Alesani et al. (2010) that disclosed, among other things, that staff qualification and preparedness affect government accounting reform.

Qualification measures the level of education of the respondents. It is a variable which is highly acclaimed for innovative ideas and technological progress. The results show that there exists a positive relationship between qualification and the level of adopting IPSAS. By implication, an increase in the level of qualification will increase both the level of perception and the likelihood of adopting IPSAS and the contrary is true. This is statistically significant at the 5% level of significance and is consistent with the theoretical expectation, and the functional relationship.

This result is supported by the study carried out by Alesani et al. (2010), which showed that qualification was quite instrumental in policies adopted to improve financial reporting. Knowledge is one of the important production factors. Thus, an efficient relationship exists between human capital and information communication technology (ICT) usage, which is crucial for the adoption of IPSAS. This finding is quite consistent with studies that relate to human capital development to adoption of innovative ICT related reforms such as the Mughal et al. (2011) findings that showed the importance of accumulation and development of human capital in productivity growth in the era of skill-biased technical change.

Further, the findings are consistent with other scholars like Masawe (2016) who found that the education level and professional qualification of the employees play critical roles in the adoption of new professional standards. In this regard, the study reveals a positive relationship between the academic qualification/ training/experience of public service employees and their preparedness to adopt IPSAS. Human resource related factors are statistically significant in explaining the preparedness to adopt IPSAS under institutional readiness, acceptance drive and reform requirements. The coefficient of significant factors, as fittingly tested in regression, shows that preparedness to adopt IPSAS is positively related to human resource related factors.

Recommendations and practical implications

From a practical point of view, the findings from this study give an important implication to the Zambia Institute of Chartered and Accountant (ZICA) and the Office of the Accountant General at the Ministry of Finance (MoF), who are leading the adoption process of IPSAS in Zambia. This information is important in the process of adoption/implementation as it informs the strategies for ZICA and MoF to ensure the country is prepared and ensure the IPSAS are successfully adopted and the project is successfully implemented. The identified significant factors that have been found to have some influence on the IPSAS preparedness in the adoption of IPSAS by the Public Sector require attention in the adoption process which Zambia embarked on. The findings generated in the study lead to a number of key implications for policies towards the adoption of IPSAS. Of concern in this article are human resource related factors.

It is, therefore, recommended that a cadre of human resources should be prepared to handle the transition to IPSAS. It is essential that all the ministries analyse the changes required and identify possible gaps within their existing human resources. They need to decide whether the required expertise can be tapped from existing staff and/or whether external experts need to be recruited to handle the emerging tasks and challenges. During the transition towards IPSAS, ministries should determine and subsequently budget for the additional human resources required in the administrative, budgetary and finance areas to ensure not only effective implementation of the transition to IPSAS but also adequate capacity for maintaining future IPSAS compliance. In his study of the preparedness of the UN system organisations for IPSAS, Biraud (2010) advised that it is key to start the IPSAS undertaking with a basic gap analysis and skills inventory in order to take stock of the existing expertise and experience of in-house accounting and finance professionals and determine to what extent, and for how long, external expertise is needed to complement in-house capacity. A strategy that does not take into account the human resources requirements of IPSAS may result in the disengagement of staff when their regular duties conflict with those of the project.

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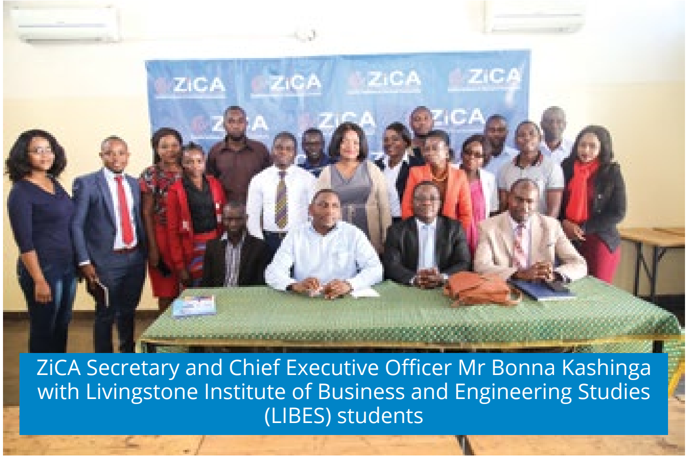
The modern office park, to be constructed at the Accountants Park, which will consist of customisable 200m² – 6 000m² offices set in beautiful landscaped gardens with prices ranging from $15-$18/m².

The ZiCA Director Standards and Regulation Mr. Mwelwa Mwaba presenting a gift to Mr. Tamba Momoh the Sierra Leone Audit Service Deputy Auditor-General.

ZiCA Council members attending the Annual Business Conference in Livingstone which was held from 14th to 16th August 2019 at the Avani Victoria Falls Resort.



ZiCA Secretary and Chief Executive Officer Mr Bonna Kashinga with Livingstone Institute of Business and Engineering Studies (LIBES) students

ZiCA CEO Mr Bonna Kashinga welcoming Southern Province Minister Edify Hamukale, MP to the ZICA stand at the Southern Province Exposition held at Livingstone Golf Club on 20th September 2019

ZiCA President Mr Jason Kazilimni Jr (seated right) and some Council members when they paid a courtesy call on the Minister of Finance Honourable Dr Bwalya Ngandu at his office

ZiCA President Mr Jason Kazilimani Jr and ZiCA CEO Mr Bonna Kashinga at the Corporate Insolvency workshop at Sarovar Premier Hotel on 10th September 2019

R-L: ZiCA President Mr Jason Kazilimani Jr, Franklin Tembo Jr (ZNBC) and ZiCA CEO Mr Bonna Kashinga during the ZiCA sponsored 2020 National Budget live broadcast

Chief Justice Madam Ireen Mambilima at the Forum for Zambia Women Accountants (FZWA) Symposium held at Taj Pamodzi Hotel on 11th October 2019.

ZiCA President Mr Jason Kazilimani Jr speaking at the 2020 Budget Analysis cocktail held at the New Government Complex on 27th September 2019

Minister of Finance Dr Bwalya Ngandu arriving at Parliament for the 2020 National Budget presentation

The ZiCA Tax Committee members making an oral submission on the 2020 National Budget at Parliament

HOW AFRICA'S LEADING NATIONS ARE COMMITTED TO IPSAS

How to succeed in your IPSAS journey

By **Stephan van der Merwe**

Many of Africa's leading countries have committed to implementing IPSAS, the International Public Sector Accounting Standards. The right tools and support will increase the chances of success in what is a tricky transition, says Stephan van der Merwe (CA) SA, Product Manager, CaseWare Africa.

"African governments are seeing IPSAS as a way to improve the way they manage public assets and thus accelerate service delivery and drive accountability. They also recognise that enhanced financial management will create more stable economies, reduce the chance of social unrest and, crucially, attract vital foreign investment," he explains. "Making the transition to IPSAS successfully is thus a national priority, and the right software and support can make all the difference."

Mr van der Merwe explains that accrual-based accounting like IPSAS improves public sector reporting by taking the rights and obligations of financial transactions into account, not just the transactions themselves. This accords well with the reality that governments are not in business to make profits, but to deliver public services. Making the link between money spent and results achieved more transparent thus reflects better what governments are doing, and builds citizen and investor confidence.

In addition, the fact that a government's financial reporting uses internationally comparable standards makes it easier for foreign investors to assess the economy's stability and potential.

"We should not underestimate the potential pitfalls when moving to IPSAS. Many government entities will be converting from frameworks like IFRS, which has a for-profit basis or Cash Accounting, which have limited recognition for rights and obligations. This conversion process is greatly aided by partnering with CaseWare because our templates have been refined through numerous global implementations, and thus can enable a smooth transition process," he says. "CaseWare will also ensure that the maximum amount of automation occurs, thus reducing the time commitment of staff and enhancing accuracy.

"To realise the benefits of IPSAS one needs to look beyond compliance for compliance's sake to what the outcomes are intended to be. Using CaseWare will make that possible because it embeds the spirit as well as the letter of the standard into the entity, and gives staff the bandwidth they need."

Most governments have mandated a staggered transition to allow the conversion process to be taken carefully. For example, the Zambian government has indicated that government ministries, provinces and spending agencies will have to use IPSAS for financial statements for periods ending on or after 31 December 2022, while non-governmental public sector entities and not-for-profit organisations must comply two years earlier, by 31 December 2020.*

A further important consideration is that no set of standards is static. IPSAS is constantly being updated as new issues emerge and thinking changes. CaseWare is constantly updating its software to ensure that these changes are incorporated into the software.

"We go further than simply staying abreast of changes. We also spend a lot of time ensuring the specific requirements of a country, for example, additional disclosure due to other legal requirements, are also considered in our development". Mr van der Merwe concludes. "Partnering with a global leader like CaseWare will not only make the transition to IPSAS much easier and more successful, it will ensure that the organisation is future-proofed as well. IPSAS is important: make sure it's a success, now and into the future."

ends

* Zambia Institute of Chartered Accountants, "Accounting Pronouncement: 2018/3—Applicability of International Public Sector Accounting Standards (IPSAS) in Zambia".

ABOUT CASEWARE AFRICA

CaseWare Africa, a division of Adapt IT, is the global leader in auditing and financial reporting software and is used in over 130 countries worldwide. Our 20 000 users across Africa, consist of audit and accounting firms, government entities, municipalities as well as large blue chip companies.

CaseWare is the undisputed leader when it comes to compliance. Our leading content providers ensure you are always compliant with the latest disclosure requirements on ISAs, IFRS, IFRS-SME, GRAP and IPSAS. Our world-class products are not only designed to deliver on our compliance promise, but ensure quality results, increased effectiveness and improved profitability.

THE HIGHLIGHTS ON THE EMPLOYMENT CODE ACT, NO. 3 OF 2019

By Ministry of Labour and Social Security

Repeal and Replacement

The Act has repealed and replaced the Acts, namely; the Employment Act of 1965, the Employment (special provisions) Act of 1966, the Employment of Young Persons and Children Act of 1933 and the Minimum Wages and Conditions of Employment Act of 1982.

The essence of repealing and replacing the aforementioned Acts was to ensure that a law be enacted to cure the lacunas that were in the said Acts and to suit the dynamics of the labour market.

Application

The Act has exempted certain categories of people to whom it doesn't apply such as; persons in defence force, Zambia Police Service, Zambia Correctional Service, and persons in the Zambia Security Intelligence Service.

To this, the minister has been conferred power to exempt any persons or class of people by Statutory Instrument, thus, after consultation with the Tripartite Consultative Labour Council.

Discrimination – Section 5

The Act has expressly provided for non-discrimination against an employee on grounds of nationality, colour, religion, sex, among others, and this is meant to suit the provisions of Article 23 of the Constitution

Casualisation –section 7

The Act has enhanced the provision on casualisation by providing for what is meant by the term casualisation and prescribing the determining factors of such employment that is to be deemed as casualisation.

Priotisation of employment for citizens – section 14

The Act seeks to empower the citizens by prioritising them in terms of job opportunities. Jobs are not to be given to expatriates unless the employer can show that indeed there are no able Zambians who can perform such or who are competent for such a job.

Governing law of contracts of employment – section 15

All contracts of employment are to be governed by the provisions of the Act. Further, the Act makes it mandatory for all contracts exceeding 6 months to be in writing and provides for what is to be contained therein.

Probation – section 27

Previously there was no provision for probation in the law. The Act now provides that an employee may be employed for a probationary period not exceeding three (3) months for the purpose of determining that employee's suitability for appointment.

An employer who does not notify the employee, in writing, of the confirmation, the employee shall be confirmed in the position from the date of expiry of the probation period.

Security in certain contracts of employment – section 30

The Act has provided that an authorised officer may, before attesting a contract of employment outside the Republic, require an employer or an employment Agency to give security by bond, and provide a surety resident within the Republic as approved by an authorised officer.

The bond shall provide for the due performance of the contract by the employer on the terms that an authorised officer may consider reasonable, or in lieu of that bond, an authorised officer may require the employer to deposit in cash the sum that the officer may consider necessary to guarantee the performance.

The money recovered under a bond will be applied by an authorised officer in or towards satisfaction of a claim of an employee employed under that contract of employment and any balance remaining after the satisfaction of that claim shall be paid to the employer.

Sick leave and Medical discharge – section 38

Previously this provision was only in the schedule to the minimum wages and conditions of employment Act which meant that it never applied to other categories except the protected employees then.

An employee on short-term contract shall be paid a full pay for 26 working days and half pay for another 26 days of the sick leave. Those on long-term contracts shall be full pay for the first three months and half pay for the next three months of the sick leave.

Where one is discharged medically, they shall be entitled to not less than 3 months' basic pay for each completed year of service.

Family Responsibility leave – Section 40

The Act has provided for family responsibility for an employee who has worked for a period of six months or more, of leave of absence with pay for a period not exceeding seven (7) days in a calendar year to enable the employee nurse a sick spouse, child or dependent upon production of a medical certificate.

Maternity Leave – section 41

The Act has increased the period of maternity leave from 12 weeks to 14 weeks to be taken immediately after delivery. The employee may apply to the employer for an extension of the said leave. Further, a female employee shall not forfeit that employee's annual leave entitlement because of having taken maternity leave.

On expiry of the maternity leave, the employee shall return to the job which the employee held immediately before the maternity leave or to a reasonably suitable job on terms and conditions not less favourable than those which applied to the employee before the maternity leave.

Nursing breaks – section 45

The Act provides for nursing breaks for breastfeeding mothers. The entitlement is 2 nursing breaks of 30 minutes each and/or 1-hour payday. Such time spent as nursing break shall not be deducted from the pay.

Further, the Act also provides for Paternity leave, which entitles a male employee to 5 continuous working days off duty after the birth of his child.

Forced Leave – section 48

The Act has provided that an employer shall, where the employer sends an employee on forced leave, pay the employee basic pay during the period of the forced leave.

Severance Pay – section 54

An employer is obliged to pay a severance package to an employee whose contract has been either terminated or upon expiration of his/her contract. Such payment shall be done in the following manner:

Where an employee is medically discharged,

Where a contract of employment is for a fixed duration, a severance pay shall either be a gratuity of not less than 25% earned during the contract period or retirement benefits provided for by the relevant social security scheme,

Where termination is by reason of redundancy, the severance pay shall be a lump sum of 2 months basic pay for each year of service under the said employment. The aforementioned entitlement shall be same as for those who die whilst serving under the contract of employment.

Note that the severance pay shall not extend to casual and temporary employees, those on probationary and **long-term** employment. Further, the minister shall prescribe the formula for the severance pay.

Termination by Redundancy – section 55

Previously such termination was put under oral contracts and those on written contracts were not covered, which meant that in case of such termination, they would not be entitled to benefits that fall thereunder. The Act has finally made it applicable even to employees on contracts.

Further, an employer who is unable to pay redundancy package due to financial incapacity may apply to the Labour Commissioner for exemption from paying a lump sum.

Where an employer wants to engage employees within 9 months of such redundancy occurrence, they must return the redundant employees before considering new applicants.

The Skills Advisory Committee – section 63

The Act has constituted a skills advisory committee whose purpose is to advise the minister on measures necessary to ensure that citizens are accorded priority in respect of opportunities for employment.

Certain categories of employment are restricted to citizens in the interest of State security; citizens are accorded the same wages as an expatriate for work of equal value, among others.

Gratuity – section 73

The Act has provided for gratuity payable at the end of a long-term contract of not less than 25% basic pay earned during the contract period. Further, where employment is terminated before the end/ expiration of contract, gratuity payable is prorated.

Health breaks – section 77

Every employee is entitled to a health break of at least 20 minutes or two health breaks of 10 minutes each, thus, in addition to a one-hour meal break.

Employment of young children and young persons – Part V

A person shall not employ a child in a public or private industrial undertaking.

A child may be engaged for purposes of education but should not be work that would be prejudicial to the child's attendance at an institution of learning, participation in vocational orientation or training approved by a competent authority or child's capacity to benefit from an institution.

Minimum wages and conditions of employment – Division 7.3

Section 99 has further provided for the constitution of the Labour Advisory Committee which is an ad hoc committee of the TCLC

The Minister in consultation with the Labour Advisory Committee may issue a statutory instrument prescribing the minimum standards and conditions of employment for certain categories of employees.

Such reviews are to be made by the committee, which shall recommend to the Minister the minimum wages and conditions of employment.

Employment agencies – Part VIII

The Act has spelled out the requirements for one to apply for employment agency, the procedure, the conferred power to the Labour Commissioner to issue or deny issuance of such licence, validity of permit, suspension and renewal of such permit.

Inspectorate – Part X

The Act constitutes the inspectorate that is mandated to ensure that the provisions of this Act are adhered to/compliance with.

Application of more favourable conditions of employment – Section 127

Where a contract of employment, the Act or collective agreement has better conditions than any of the aforementioned, such document shall prevail over the rest.

In other words, if the Act has better conditions than a collective agreement or contract of employment, its provisions shall prevail over the agreement(s). This also happens vice versa.

THANK YOU FOR YOUR ATTENTION!!

2020 BUDGET HIGHLIGHTS
OVERVIEW OF TAX CHANGES

DIRECT TAXES

1.1 HOUSEKEEPING MEASURES

1.1.1 Amend Section 2 of the Income Tax Act by redefining the word "farming" in order to exclude ancillary activities to agriculture.

The measure intends to exclude ancillary business activities to farming from the definition of agriculture. The current definition makes reference to the term agricultural activity which is broad and has been construed to include activities that are ancillary to farming. For example, activities ancillary to agriculture such as marketing, technical or management services or any other varying degrees of involvement in the agricultural process are not part of farming but are being misconstrued to be agricultural activities and thus enabling businesses to claim the accelerated capital expenditure deductions and preferential Company Tax rate of 10 percent under farming income.

1.1.2 Amend the Transfer Pricing provisions under Section 97A (13) and (14) of the Income Tax Act to:

- **provide for price premium adjustments;**
- **empower the Commissioner General to issue specific guidelines on pricing of minerals;**
- **empower the Commissioner General to request a resident or non - resident person to provide, upon request third party Sales Agreements and third party invoices relating to the sale under Subsections (13) and (14) of Section 97A;**
- **extend the use of the reference pricing to adjust the pricing of purchases between Related or Associated Persons(Parties).**
- **Deem the Agreed Sale Price between a resident person or non- resident person with an unrelated person to be the reference sales price for tax purposes of the Zambian person where the agreed price is higher than the reference price and the sale to the unrelated person of the base or precious metal does not involve further milling, blending, treatment, refinement or transformation.**

Currently, Section 97A provides for adjusting the price used in the sale of base and precious metals between Related or Associated parties to be adjusted using a reference price obtained from recognised commodity exchange markets such as the London Metal Exchange for Income tax purposes. The law also provides for adjusting the reference price to provide discounts on

account of poor quality or low grade. Despite these provisions, the law has not provided mechanism for determining the discounts and additionally the law has not provided for adjusting the price upwards where the mineral being sold attracts a premium such as Copper Cathode Grade A for purposes of invoking the Sixth Method for transfer pricing purposes hence rendering the provision inadequate as mining companies do transact at prices that include premiums.

The measure is therefore intended to ensure that premium adjustments are captured and that the Commissioner General can also issue specific guidance on pricing of bases metals and precious metals where appropriate and provide guidelines on determining discounts.

1.1.3 Amend Section 2 of the Income Tax Act by replacing the term "*Lusaka Stock Exchange*" with "*Lusaka Securities Exchange*" and wherever else it appears in the Act.

This measure is intended to align the Income Tax Act with the change of the name from Lusaka Stock Exchange to Lusaka Securities Exchange as per Securities and Exchange Act No. 41 of 2016.

1.1.4 Amend Section 77(4) of the Income Tax Act to include the words "Section Sixty-Four A" after the words 'Section Sixty-Four" in order for the penalties and interest, under Section (78), to apply to Standard Assessments under Section Sixty-Four A as well.

This measure is intended to provide for charging of penalties for non- payment of tax and interest on overdue payments of the standard assessments under Section 64A.

1.1.5 Amend Section 78(1) of the Income Tax Act to provide for the charging of penalties and interest on the taxes payable under Sections 81, 81A, 82 and 82A.

This measure is intended to provide for the charging of penalties and interest on overdue payments of the taxes provided for under the aforementioned sections, that is, Withholding Tax on dividends, payments to non-resident contractors, interest, royalties, rent, commissions, management and consultancy fees, and public entertainment fees.

1.1.6 Amend Section 81 of the Income Tax Act by introducing a provision for the imposition of penalties for the late submission of returns in relation to dividends and payments to non-resident contractors.

This measure is intended to provide for the charging of specific penalties on the late submission of returns with respect to dividends payments to non- resident contractors.

1.1.7 Amend Section 82A(1) of the Income Tax Act to exempt from Withholding Tax, the interest payable to Banks and financial institutions.

The measure is meant to exempt any person from withholding tax on interest payments to local banks and financial institutions because a person is not in a position to withhold tax on interest on a loan from a local bank.

1.1.8 Amend Transfer Pricing Provisions in Section 97A(1) of the Income Tax Act by:

- **re-defining the terms "Actual conditions", "Arm's length conditions"and "Related or associated persons";**
- **reinstating selected definitions that were in the revoked Section 97AA; and**
- **introducing a definition for "Taxpayer".**

The measure intends to include definitions that are key to transfer pricing in light of o the evolution of international trade where multinational enterprises are exploring and developing new means of dealing with related parties.

1.1.9 Amend the Transfer Pricing Provisions of the Income Tax Act Dealing with Corresponding Adjustments to clarify that a Taxpayer is Eligible to make a claim for tax credit in relation to Transactions with both Resident and Non – Resident Related Persons. The Proposal also Seeks to , provide for the application of Transfer Pricing provisions in Double Taxation Agreements that Zambia has with other Countries.

The measure is intended to clarify that a Zambian taxpayer is eligible for a corresponding adjustment claim arising from a transaction with both a resident and non- resident related person.

The measure further clarifies that

corresponding adjustments are only applicable to transactions between a taxpayer and a non -resident where the non-resident is resident in a country where Zambia has a Double Taxation Agreement.

1.1.10 Amend paragraph 5(l) of the Second Schedule to the Income Tax Act to insert the word *'approved'* before the words *'collective investment scheme'* and provide for a definition of *"approved collective investment scheme"*.

This measure is intended to provide for approval of a Collective Investment Scheme; to provide for exemption of the income of a Collective Investment Scheme only if it is approved by the Commissioner-General; and to provide further clarity on the taxation of income of an ***approved*** Collective Investment Scheme.

1.1.11 Amend the Fourth Schedule to the Income Tax Act to provide for the procedure for the administration, approval and compliance of a Collective Investment Scheme.

This measure is intended to provide for the procedure for administration, approval and compliance of the Collective Investment Schemes.

1.1.12 Amend the Income Tax Act to reduce the Withholding Tax rate on interest payment on Government securities to non-residents to 15 percent from 20 percent.

Under the 2019 National Budget, the withholding tax on dividends, branch profits and interest was increased from 15 percent to 20 percent. However, a Statutory Instrument was issued to suspend the rate on Government securities from 20 percent to 15 percent but this Statutory Instrument has a sunset clause of 31st December 2019. Therefore, this measure is intended to reduce the rate on Government securities to 15 percent in the Principal Act.

2.0 PROPERTY TRANSFER

2.1 HOUSEKEEPING MEASURES

2.1.1 Amend the definition of "Shares" in the Property Transfer Tax Act by expanding the definition of 'Share' to include 'Equivalent Rights'.

This measure is intended to broaden the definition of "share" to include the transfer of rights that are equivalent to shares. Some jurisdictions use the term 'Rights'' in their tax codes which covers all shares and rights.

2.1.2 Broaden the term of Realised Value provided under Section 5(2A) of the Property Transfer Tax Act that is used in computing the value of shares in cases involving indirect transfer of shares for companies incorporated outside Zambia so as to include the:

- Nominal value; and
- The direct consideration of the shares being transferred, in addition to the current computation based on formula, whichever is higher of the three.

The measure is intended to broaden the basis for computing the realised value of the indirect transfer of shares by providing two more options and providing for selecting the option that gives a higher value as the base on which tax will be charged.

2.1.3 Introduce a provision in the Property Transfer Tax Act to allow the Commissioner General to determine a nil realised value for certain transfers of property within group of companies in respect of indirect share transfers which do not result in a change to the effective shareholding by the company owning directly or indirectly at least 10 percent of shares in a company incorporated in Zambia.

This measure will ensure that transfers of shares that do not lead to a transfer of economic value where the effective shareholding does not change are excluded from the scope of Property Transfer Tax.

2.1.4 Introduce an anti-avoidance provision in Section 5 of the Property Transfer Tax Act to exclude from exemption, transfers between Group Companies that have only been members of a Group for a limited period of 3 years.

This measure is intended to prevent tax planning schemes by excluding companies that have been members of a group for less than 3 years from being considered by the Commissioner General for any relief for Property Transfer Tax purposes. The 3 year threshhold is in line with the anti- avoidance provisions in the Income Tax Act.

2.1.5 Amend the Property Transfer Tax Act by removing the reference to revoked provisions of the Income Tax Act namely Section 97AA and Paragraph 22(A) of the Fifth Schedule to the Income Tax Act.

The measure seeks to remove reference to the provisions of the Income Tax Act which have since been repealed. Section 97AA (Arm's Length test for thin capitalisation) and paragraph 22A of the Fifth Schedule (specific thin capitalisation ratio to Mining Companies) to the Income Tax Act were repealed under the 2018 amendments of the Income Tax Act. Therefore, these references are no longer relevant.

3.0 VALUE ADDED TAX

3.1 REVENUE CONCESSIONS

3.1.1 Zero rate capital equipment and machinery for the mining sector.

This measure is intended to improve cash flow for the mining sector and also reduce VAT refund claims.

3.1.2 Zero rate Copper cathodes for VAT purposes.

This measure is intended to improve cash flow for local manufacturers who use the product as an input. In addition, this will reduce the VAT refund claims.

3.1.3 Zero rate Liquefied Petroleum Gas (LPG) for VAT purposes. The zero-rated products are specified as HS Codes 2711.11.00, 2711.12.00, 2711.13.00, 2711.14.00 and 2711.19.00.

This measure is intended to promote the use of alternative sources of energy and thereby mitigate the effects of climate change.

3.1.4 Zero rate gas stoves and other appliances that use gas of HS Codes 7321.11.00 and 7321.81.00 for VAT purposes.

This measure is intended to promote the use of alternative sources of energy and thereby mitigate the effects of climate change.

3.2 COMPENSATING MEASURES

3.2.1 Limit input VAT claims by mining and mineral processing companies on diesel to 70 percent from 90 percent.

The measure is intended to generate revenue for the Government.

3.2.2 Limit input VAT claims by mining and mineral processing companies on electricity to 80 percent from 100 percent.

The measure is intended to generate revenue for the Government.

3.2.3 Disallow input VAT claims on consumables such as stationery, lubricants and spare parts for all entities, except where these products are stock in trade.

This measure is intended to generate revenue for the Government by disallowing input VAT credits on consumables. This measure will not apply to businesses for which these consumables are stock in trade.

3.3 HOUSEKEEPING MEASURES

3.3.1 Make it mandatory to use Electronic Fiscal Devices (EFD) for VAT and other tax types and facilitate accreditation of EFD manufacturers, distributors and virtual EFD software suppliers and vendors.

The measure is intended to extend the mandatory use of EFDs to other tax types and provide for accreditation of manufacturers, distributors and vendors of EFDs.

3.3.2 Make it mandatory for all taxable suppliers to use Point Of Sale (POS) machines (swiping machines).

The measure is intended to make it mandatory for all taxable suppliers to have a Point Of Sale (POS) machine as one of the payment options.

3.3.3 Make it mandatory to capture on the invoice, the Taxpayer Identification Number (TPIN) and Name of both the buyer and seller of goods and services in all Business to Business (B2B) and Business to Government (B2G) transactions.

The measure is intended to enhance tax compliance.

3.3.4 Amend the VAT Act by standard rating ancillary services to transits.

This measure is intended to standard rate ancillary services that are directly linked to the transit of goods through Zambia to destinations outside Zambia.

3.3.5 Delete the supply of an inclusive tour to a tourist by a tour operator or travel agent licensed as such under the Tourism and Hospitality Act, 2007, if the contract was entered into before 1st January, 2014, subject to such conditions as the Commissioner-General may require.

The measure is intended to remove the redundant provision.

3.3.6 Amend paragraph D of Group 2 to empower the Commissioner General to be the sole issuer of Local Purchase Order (LPO) for zero rating.

The measure is intended to restrict the issuance of Local Purchase Orders to the Commissioner General only so as to curb the abuse of VATzero-rating relief.

4.0 CUSTOMS AND EXCISE

4.1 REVENUE CONCESSIONS

4.1.1 Remove customs duty on Liquefied Petroleum Gas (LPG) under HS Codes 2711.11.00, 2711.12.00, 2711.13.00, 2711.14.00 and 2711.19.00.

This measure is intended to promote the use of alternative sources of energy and thereby mitigate the effects of climate change.

4.1.2 Amend the Customs and Excise Act to suspend customs duty for a period of three years, on selected equipment used in the aquaculture industry.

This measure is intended to promote the growth of the aquaculture industry in Zambia and thereby contribute to the economic diversification efforts of the country.

4.1.3 Suspend customs duty for a period of three years, on machinery for processing of solid waste to generate electricity and produceorganic fertilizers.

This measure is intended to promote the generation of electricity through alternative means. The measure is also intended to promote the local manufacturing of organic fertilisers.

4.2 COMPENSATING MEASURES

4.2.1 Introduce customs duty at the rate of 10 percent on specified capital equipment and machinery imported by mining and mineral processing companies which are currently duty free or attract customs duty at the rate of 5 percent.

This measure is intended to raise revenue for the Government.

4.2.2 Impose surtax on Flexible Intermediate Bulk Containers (FIBC) of HS Code 6305.32.00.

This measure is intended to encourage local production of FIBC (jumbo bags).

4.2.3 Amend the Duty Draw Back Regulations to limit the duty refunds to import duty paid by a claimant and remove refunds of implied duties on locally sourced inputs.

The measure is intended to streamline the refund scheme.

4.2.4 Increase the specific excise duty rate on cigarettes to K265 per mille from K240 per mille.

The measure is intended to maintain competitiveness of domestic producers of cigarettes and increase revenue collection for the Government.

4.2.5 Increase the carbon emission surtax on all motor vehicles entering Zambia by 20 percent.

This measure is intended to mitigate the effects of climate change and air pollution.

4.3 HOUSEKEEPING MEASURES

4.3.1 Insert regulation 82A to the Customs and Excise (General) Regulations, 2000 to provide for the remission of duty on Publicity Materials imported by Tourism Agencies.

This measure is intended to align the customs legislation to the Istanbul Convention on temporary admission. .

4.3.2 Insert regulation 88C to the Customs and Excise (General) Regulations, 2000 to provide for the remission of duty on goods imported for humanitarian purposes forwarded as aid to persons affected by natural disasters and similar catastrophes.

Currently, Zambia does not have specific provisions that allow for importation of duty-free materials for humanitarian cases even though remission of duty may be granted on importations by approved organisations on a case by case basis. Implementing this measure will align the Customs legislation to the Istanbul Convention.

4.3.3 Repeal and replace the Second Schedule (Excise schedule) to correct a

drafting error arising from the Customs Amendment Act 19 of 2018.

The measure is intended to include new motor vehicles that were inadvertently omitted from the Second Schedule of the Customs and Excise Amendment Act No. 19 of 2018. The measure therefore will correct the observed omissions in the amendment Act.

4.3.4 Amend Section 93(2) to include a provision for a single (excise) licence to cover the manufacture of all types of non-alcoholic beverages.

The measure is intended to reduce the number of licenses that can be obtained by non-alcoholic beverages manufacturers. This will help to reduce the cost of doing business for local manufacturers of non-alcoholic beverages.

4.3.5 Amend Section 108(3) and Section 139D(2) of Customs and Excise Act to provide for the same due date for both the payment and the return; and to remove the words *'and entry'* from *'the return and entry'*.

This measure is intended to harmonise the law with current practice by removing the words 'and entry'. This will further align local excise payments with other domestic taxes whose payment due dates are tied to the return due dates.

4.3.6 Amend Regulation 47 of the Customs and Excise (General) Regulations, SI No. 54 of 2000 to:

- **replace the words** *'Customs Division'* **with** *'Commissioner General'*
- **under sub-regulation (2) ;**
- **insert the words** *'and the licensed manufacturer'* **between** *'carrier'*
- **and** *'shall';* **and**
- **introduce sub-regulation (4) to provide for the requirements relating to claims by taxable suppliers, in relation to exported supplies by reason of exportation.**

This measure is intended to update the law to be in line with current practices as well as safeguard revenue by ensuring that all the goods exported from bond exit the Republic.

4.3.7 Amend Regulation 52(2) and 52(3) of the Customs and Excise (General) Regulations, SI No. 54 of 2000 to:

- **insert the words** *'by both the Oil Marketing Company and the bonded warehouse operator'* **to clarify that filing of the return referred to shall be done by both parties; and**
- **increase the penalty for late return submission from one hundred to one thousand penalty units for each day that the return is not lodged.**

This measure is intended to provide clarity in the law and enhance compliance.

4.3.8 Insert a sub-regulation under Regulation 52 of the Customs and Excise (General) Regulations, SI No. 54 of 2000 to provide for the appointment of withholding tax agents for excise duty on manufactured oil products.

This measure is intended to empower the Commissioner-General to appoint withholding tax agents for excise duty on manufactured oil products.

4.3.9 Amend the Second Schedule (Excise Schedule) to the Principal Act in heading 1 of the Schedule on the description of the goods column of tariff subheading 2009.31.00 by the addition of the figure 20 immediately after the word "exceeding".

The measure is intended to correct the anomaly and align it to the Harmonized Commodity Description and Coding System.

4.3.10 Amend Section 168(4) of the Customs and Excise Act to correct the omission of the word "Not" in the text of this section by including the word "Not" after the word "shall".

Section 168(4) was amended through the Customs and Excise (Amendment) Act No. 4 of 1999 with the sole intention of giving powers to the Commissioner General to impose a fine on a person alleged to be an offender in lieu of conviction but the word **"Not"** was omitted in the text of this provision just after the word "shall" thereby changing the meaning and the policy intentions of the amendment. The provision, in its current form, suggests that the acceptance of the fine by the Commissioner General shall be treated as a conviction for a criminal offence.

4.3.11 Amend section 13 of the Principal Act to allow the Commissioner General, subject to such conditions as he may specify by rule, to prescribe certain category of goods that can exit through particular ports prescribed by the Minister by Statutory Instrument.

The measure is intended to enhance compliance.

4.3.12 Amend Regulation 69 to explicitly provide for a COMESA Simplified Certificate of Origin (STR) for goods imported by small scale traders.

Currently, Regulation 69 generally provides for a certificate of origin without making a distinction between the certificate of origin for goods imported by small scale traders whose value is less than USD$1,000 and the one used for goods with a value above USD$1,000. This measure is intended to explicitly provide for a Simplified Certificate of Origin as provided in the COMESA Protocol on the Rules of Origin.

4.3.13 Amend section 17 of the Customs and Excise Act by opening up the licensing of Customs Areas to persons other than Licensed Clearing agents.

This measure is intended to extend the licensing of customs areas to persons other than licensed clearing agents. These persons will be licensed based on an approved criteria which will require them to obtain bonding (security) among other requirements.

4.3.14 Introduce Section 184A in the Customs & Excise Act to empower the Commissioner General to approve persons that meet defined compliance standards/ requirements and wish to enter into the Customs Accredited Client Programme (CACP) with defined benefits.

This measure is intended to align the Customs legislation to the World Customs Organisation Framework of Standards, Kyoto Convention and World Trade Organisation Trade Facilitation Agreement..

4.3.15 Amend the Ports of Entry and Routes Order (SI 60 of 2014) to extend the operating hours at Kenneth Kaunda International Airport Commercial Terminal.

This measure is intended to extend the working hours and facilitate trade.

4.3.16 Amend Regulation 127 of the Customs and Excise (General) Regulations, 2000 in order to empower the Commissioner General to prescribe the manner in which certain category of goods in transit shall be conveyed across Zambia.

This measure is intended to enhance compliance.

4.3.17 Amend Section 139D(3)(b) of the Customs and Excise Act to increase the penalty units applicable for each day the return is not lodged from *one hundred* to *one thousand penalty units*.

This is intended to align the penalty regime of service providers with that of licensed manufacturers.

4.3.18 Delete Paragraph 1(2) of the Sixth Schedule to the Customs and Excise Act which currently provides the basis for the determination of the value of an undenatured alcohol of an alcoholic strength by volume of less than eighty percent, spirits, liqueurs and other spirituous beverages (which is, the value of the imported input alcohol, where such imported input alcohol is of an alcoholic strength by volume of eighty percent volume or higher).

The measure is intended to provide for an equal valuation system for neutral spirits manufactured in Zambia and the imported spirits. It will also assist to streamline the valuation process of spirituous beverages when the 'input neutral spirits' are imported.

4.3.19 Amend Section 72A of the Customs and Excise Act to provide for an exemption of export duty on goods that are imported into Zambia and bonded, and when the same goods are exported in bond attract export duty at the rates specified in the ninth schedule of the Act.

The measure will ensure that goods that are imported into Zambia and exported in bond are not subject to any export duty if the same goods are subject to export duty.

4.3.20 Repeal and replace the Ninth Schedule of the Customs and Excise Act in order impose export duty on all precious metals.

The measure is intended to include the HS Codes for precious metals which were inadvertently omitted.

LEADING FROM THE LOWER RANKS

By Michael Kaminsa

A PROFESSIONAL in the corporate world who does not aspire to be chief executive officer or managing director is rare. One who does not aspire to be a leader in his field is rare still. And a professional who does not crave recognition of any kind - one would search the whole world, and would be lucky to find one.

The desire to rise to the top is a common feature in the hearts of professionals working in the corporate world. Prospects of having titles such as manager, senior manager, director, partner and chief executive officer have proven to be a strong driving force pushing employees to do whatever it may take to rise to their desired positions. Worthy of consideration, though, is the importance placed by many on titles. Are titles overrated? Does an employee need a title to be able to exert powerful influence on an organisation? Can one achieve the deep-rooted craving for recognition even without a title?

Titles do bring power. But the problem with the type of power they bring is that if the title is taken away, the power gets lost. The influence that comes with having a title can be fleeting at best. People may not follow your leadership because of the respect they have for *who* you are, but rather for *what* you are. There exists, however, a much deeper power than titled power, and that is the natural leadership power that exists in each one of us. Though not activated in the majority of staff, this power does exist. Actually, this is power in its most real form.

A common but sad scenario observed is that professionals begin to demonstrate leadership only after being given a title of a leader. A paradigm shift in the mindsets of many is surely required. Outlined in this article are three ways in which an employee can demonstrate leadership from the "lower ranks", in fact, even from the very first day one enters an organisation.

Watching the bottom-line

The overall responsibility for the bottom-line, that is, ensuring that an organisation is profitable, is bestowed upon its titled leaders – senior management. However, if you are an employee in a non-managerial role, herein lies an opportunity to lead from the lower ranks. This can be done primarily in two ways; contributing to increase revenue and assisting to reduce costs.

Many are the times, both in formal and informal settings, that we come across opportunities to inform people about products and/or services offered by the organisations we are a part of. Sadly, though, we may let such opportunities pass for the simple reason that "it is not my job to bring in clients". However, if we are to demonstrate true leadership power – the type that is not dependent on the title we hold – we must be willing to stay alert to such opportunities and seize them as best we can.

Watching the bottom-line also entails minimising costs. There are some areas of operations in which costs can be reduced without compromising quality. Recognising these areas, though, calls for a leadership mindset. It is all too easy to reason that because we do not benefit directly from the cost reduction, it is not worth it for us to minimise costs. We must, however, see the bigger picture. Effective cost reduction translates into improved financial performance of the organisation, which ultimately results in a better atmosphere around the workplace for all. By the way, no leadership title is required for one to contribute to cost reduction. It can be achieved even from the lower ranks.

Stepping up to give a defense

In these times of stiffened competition, rapid change, and advancements in professional and technological standards, it is not uncommon for organisations to come into the spotlight for failing to meet certain expectations of stakeholders. When such situations arise, the public eye turns to the management personnel of the organisation at fault, seeking to hear any excuses or explanations for their failure to meet expectations, and, in extreme circumstances, even wishing to hear of resignations by senior staff or the closure of the entity. If you are an employee of an organisation faced with such unfortunate events, could this be an opportunity for you to step up to give a defense and, indeed, demonstrate leadership regardless of your title?

Granted, not every member of staff may have the authority to give a public statement and speak as one representing the official stance of the organisation. However, within their own professional and social circles, limited though they may be, all staff can rise to the defense of the organisation they are a part of. Some individuals may maliciously spread false stories about your employer. If encountered with such, why not courageously dispel such stories for the lies that they are? Doing so will help to preserve the reputation and dignity of your organisation, at least within your circle of influence. Gladly, no title is required for you to be able to do this. It can be done even from the lower ranks.

Coaching

A key expectation of leaders in any organisation is that they should be able to share their knowledge with those who come after them. Traditionally, in the coaching process, information flows from a higher ranked individual in the hierarchy to one of a lower rank. In today's business environment, though, if an organisation is unwilling to deviate from this traditional process, it surely is in trouble.

In many cases, among an organisation's new employees are bright young minds that are able to grasp new information and ideas quickly, sometimes even quicker than the individuals with vast experience in the industry. The atmosphere around the workplace should be made conducive to enable such, regardless of their title or lack thereof, to share their skills and knowledge with those (if any) below them in the hierarchy, with their peers, and even with their seniors.

If you are an employee in a non-managerial role, do you possess any knowledge or skills that are lacking in those you work with? Are you willing to share them? If you are to demonstrate true leadership power – the type that does not depend on the title you hold – you must stay alert to opportunities to upskill your colleagues. Be able to motivate and inspire those you work with to collaborate as best they can. When a team member needs guidance, offer it. Sometimes, all a person needs is someone to listen and be sympathetic. The awesome result of revealing leadership within the area of influence you're now in is that the more you do it, the more your area of influence will expand. This could even satisfy the craving you may have for recognition.

Conclusion

The business environment of today is extremely competitive. For corporations to thrive, they must grow and develop the leadership talent of every single person throughout the organisation faster than their competition. The only way to avoid getting eaten alive is for organisations to strengthen the capacities of employees at every level to lead in everything they do. Everyone can lead. Actually, to build a truly outstanding organisation, every single person who works there *must* lead.

So many people go to work with the mindset that when they get a bigger title and when they are granted more responsibility, they will perform at mastery and go the extra mile in everything they do. It is no longer an excuse to say you do not have a high rank so you do not need to take ownership for the results of the organisation. To succeed, everyone must now see oneself as part of the leadership team. You do not need formal authority to lead anyone – only a desire to be involved and the commitment to making a positive difference. Indeed, you can lead from the lower ranks.

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HEURISTICS AND BIASES: LESSONS FOR ACCOUNTING AND FINANCE PROFESSIONALS

By Nkandu Fortune Mwape

Introduction

In today's fast paced environment, individuals often rely on heuristics to make various decisions daily. Heuristics are usually mental short cuts used to ease the cognitive load of coming up with a decision. Ackert and Deaves (2009, p86) define a heuristic as "a decision rule that utilises a subset of the information set". Let's take for instance you are walking down the road and suddenly hear a loud "bang" sound, you are likely to quickly move away from the sound. After some time, you will look around to establish if it was a threat or not. This is an example of how heuristics helps us make quick decisions in real life. Another example of Heuristics is when you see a person smartly dressed in a suit and carrying a briefcase, most people will likely assume that the person is either a lawyer, an accountant or banker. These mental shortcuts to decision making may seem helpful but they often lead to cognitive biases in decision-making and professionals need to be aware of such biases to avoid making wrong decisions. This article will focus on highlighting the key biases encountered by professionals when making decisions.

Anchoring

World-renowned Economist and Nobel Peace Prize winner Daniel Kahneman in his article with Amos Tversky provides some examples of anchoring. In the first example, two groups of high school students estimated, within 5 seconds, a numerical expression that was written on the blackboard. One group estimated the product:

$8 \times 7 \times 6 \times 5 \times 4 \times 3 \times 2 \times 1$

The median answer was 2,250

Another group estimated:

$1 \times 2 \times 3 \times 4 \times 5 \times 6 \times 7 \times 8$

The median answer was 512

The true answer is 40,320 but what was found is that people will multiply the first few numbers to arrive at an estimate in the sequence, which explains why the first group had a higher estimate than the second group because the first numerical expression starts with larger numbers.

In one of my behavioural Finance lecture at university, the professor asked us to estimate which year the population of India was likely to double. She deliberately pointed at a student from India to give the first estimate and then asked other students from different countries. It was interesting to note that most of the students' responses were anchoring towards the year 2050 which was the answer given by the Indian student. Most students thought the Indian student would know more about her country, but it turned out that she just made a guess without any information.

Audit professionals must pay attention to Anchoring bias when conducting their work. During the audit, anchoring may occur when determining the materiality benchmark and percentage to be used when computing materiality. Auditors may anchor towards the prior year benchmark and percentage and this might result in an inappropriate benchmark or percentage because circumstances may change from year to year and the prior year benchmark or percentage may not necessarily be the appropriate one for the current year. Therefore, there is need for Audit professionals to consider any changes that have occurred from prior year and come up with a well-supported benchmark/percentage to avoid falling in an anchoring trap.

Anchoring bias towards client figures

Certain areas in accounting involve estimates and judgment such as expected credit losses on financial assets, impairment of investments in subsidiaries etc. Management of a company will come up with an estimate and auditors are required to test the reasonableness of the management's estimate. In most instances this will require auditors to carry out an independent recalculation based on observable market inputs and macro-economic conditions. The biggest threat is that auditors may be biased in their recalculation and may try to arrive at or closer to the amount estimated by the client.

Sampling Bias or Law of Small numbers

Traders, bankers, financial advisors, auditors and even non-financial professionals often encounter the sampling bias. Traders and investment bankers often make trading decision based on very small samples e.g. stock A may seem bullish based on a 10-day moving average whilst Stock B may seem bearish based on a 10-day moving average. Trader A based on this may decide to go long on stock A and short on stock B. However, if the trader had considered a much larger sample (i.e. a 100-day moving average), maybe his trading decision may have changed.

Auditors may often fall in this trap, especially when they use non-statistical sampling methods. Auditors may select three or four items and find no exceptions and based on that, they may make a conclusion on the entire population. There is need for auditors to be aware of the law of small numbers and ensure that samples selected are large enough to conclude on the entire population.

Familiarity bias

This sort of bias relates to making decisions based on what the mind conceives as being familiar. This is a tendency of individuals to prefer things that are familiar to them in order to avoid any ambiguity. People often believe that things that are familiar to them are often better. One good example of familiarity bias that affects fund managers and investors is home country bias. This is a tendency for fund managers and investors to allocate a larger portion of their investments to local investment than they would have invested had they applied the portfolio management and diversification theories. Despite the availability of information online, most investors tend to believe that companies they are more familiar with and they see around are more likely to perform better. The trend we expect to see in the Zambian context is that investors and fund managers are more likely to invest in indigenous Zambian companies than international companies. This bias results in irrational investment decisions, which may lead to loss of money as this is contrary to portfolio theory of diversification.

Framing

Professionals often make a decision based on how the problem is framed. Prospect theory tends to explain the behaviour of people when a problem is framed in terms of gains or losses. In their book, Ackert and Deaves (2009, p48) provide a very good example on how framing may change a person's decision as highlighted below.

Imagine that the United States is preparing for the outbreak of an unusual Asian disease, which is expected to kill 600 people. Two alternative programmes to combat the disease have been proposed. Assume that the exact scientific estimates of the consequences of the programmes are as follows:

If Programme A is adopted, 200 people will be saved.

If Programme B is adopted, there is a 33% probability that 600 people will be saved, and a 67% probability that no people will be saved.

Which of the two programmes would you favor?

Of the respondents to the above scenario, 72% picked Programme A. The majority seems to be risk averse.

It was surprising to note the response after

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the same problem was framed differently as follow:

Imagine that the United States is preparing for the outbreak of an unusual Asian disease, which is expected to kill 600 people. Two alternative programmes to combat the disease have been proposed. Assume that the exact scientific estimates of the consequences of the programmes are as follows:

If Programme C is adopted, 400 people will die.

If Programe D is adopted, there is a 33% probability that nobody will die, and a 66% probability that 600 people will die.

Which of the two programs do you favor?

In this case, 78% of the respondents chose Programme D.

The above problems are the same but framed differently and resulted in a change in decision. Professionals need to be aware of the effects of framing so as not to fall in this trap and make an irrational decision.

Conclusion

Professionals cannot 100% operate without Heuristics as they are highly economical and oftentimes effective. However, they may result in systematic and predictable errors. Therefore, accountants and other professionals need to have a good understanding of these heuristics and the related biases as this may improve their judgment and decision making in situations of uncertainty.

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PROFESSIONAL SKEPTICISM AND THE CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS

By Vickson Ncube
Livingstone, Zambia

PROFESSIONAL has been defined as – an attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of (audit) evidence.

According to Mr Edgar Hamuwele, trust but verify.

In order to assist with Professional skepticism, the International Ethics Standards Board for Accountants (IEASBA) issued a Code of Ethics - The Code of Ethics for Professional Accountants.

The Code sets out fundamental principles of ethics for professional accountants, reflecting the profession's recognition of its public interest responsibility based on integrity, objectivity, professional competence and due care, confidentiality, and professional behaviour.

The declaration of Zambia as a Christian Nation does not make Zambians Christians. Not even including it in the preamble to the Constitution.

Passing an Anti Corruption law does not reduce corruption.

A Code of Ethics does not make accountants ethical.

The Code of Ethics is not an end in itself but a means to an end. As a profession, we need to find our general relevance beyond fees and salary. We need to understand that we serve a larger good – the Public, the Citizens of our country and continent. Simply put, we serve the man and woman in the street.

The Code of Ethics is not the acquisition of principles. It is not about ticking boxes of compliance of laws and regulations, neither is it about serving the interests of the arrogance of financial capital to the negation of the principles of six capitals as contained in Integrated Thinking which itself is a foundation of Integrated Reporting.

The Code of Ethics must make us realise that as a profession we are the defenders of all the six capitals – Natural, Manmade, Social and relationships, Human, Intellectual and Financial.

Allow me to suggest that the African Union Agenda2063 provides the context within which our professional ethics must be practised.

The Code of Ethics must create in us professionals who are patriotic to our nations as well as to our Continent Africa.

The profession must champion the ideology of the African Union Agenda 2063.

We must as profession be players in the creation of "The Africa we want (The Africa we deserve - Dr Tom Thabane Lesotho PM) – Integrated, prosperous and peaceful Africa, driven by her own citizens and representing a dynamic force in the international arena.

If this Code is to have meaning:

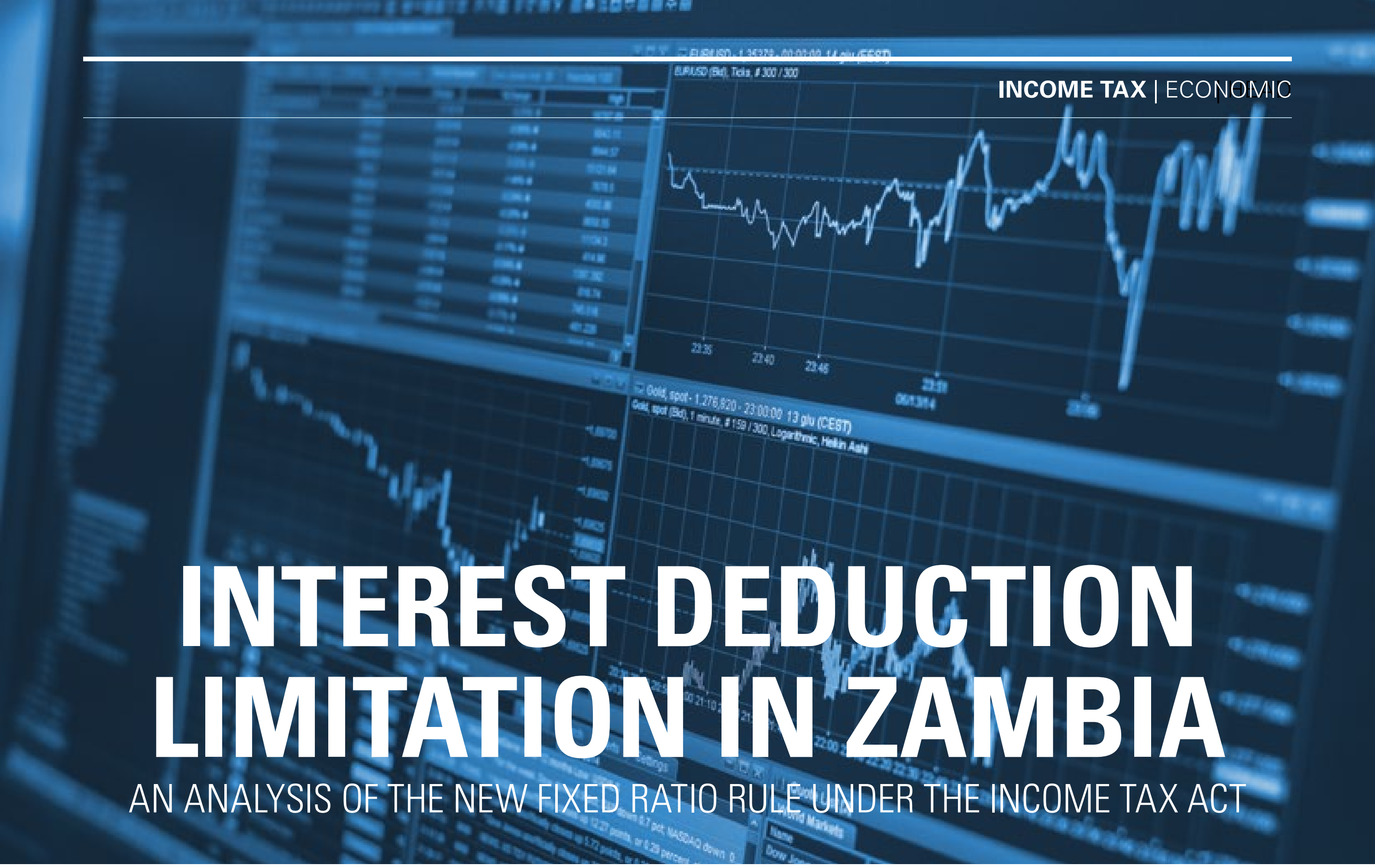
- No conniving with investors to con our nations.
- No facilitating the corrupt to exploit.
- Morality in tax collection and tax utilisation.
- Take a stand against corruption, rename as theft.

The Code of Ethics must help us realize our collective vision, that is - African is self confident, in its identity, heritage, culture and values and as a strong united and influential partner on the global stage, making its contribution to peace, human progress, peaceful co-existence and welfare. In short a different and better Africa.

Let me invite all of you to the 5th Africa Congress of Accountants 2019 (ACOA2019) to be held in Marrakech Morocco from 19 to 21 June 2019

I Thank you all.

www.pafa.org.za
www.acoa2019.com



INTEREST DEDUCTION LIMITATION IN ZAMBIA

AN ANALYSIS OF THE NEW FIXED RATIO RULE UNDER THE INCOME TAX ACT

By Kennedy Nakoonje Munyandi, LL.M.

INTRODUCTION

In December 2018, the Zambian Parliament passed the Income Tax (Amendment) Act No. 17 of 2018. One of the major amendments contained in the Act is the introduction of a new interest deduction rule that limits the amount of a tax-deductible interest expense to a fixed ratio of the interest expense to the company's earnings. This paper seeks to examine in detail, the implication and application of this 'fixed ratio rule'.

"INTEREST" VERSUS "DIVIDED" TAX TREATMENT

A company can be financed through either debt or equity (or a combination of both). The company rewards a loan creditor (debt holder) by way of "interest" payments, while it rewards an equity-holder through "dividend" payments.

Under most tax systems, interest payable on debt financing is tax deductible for income tax purposes. That is, if a company obtains a loan for purposes of its business, then the company's taxable income will be an amount arrived at after the deduction of the interest payable on the loan during that period.

On the other hand, in most tax jurisdictions, dividends distributed by a company are not tax deductible against company profits. The dividends are paid out of the after-tax profits!

If you are dealing with a single economic entity (i.e. a group of companies), the above differentiation in the tax treatment (of interest and dividends) becomes very important, especially in a cross-border situation. This can be illustrated by the following example:

Example 1:

Consider the structures of 2 multinational enterprises, Group A and Group B, shown in Figures 1 and 2 below.

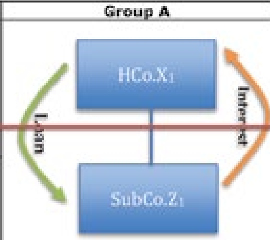
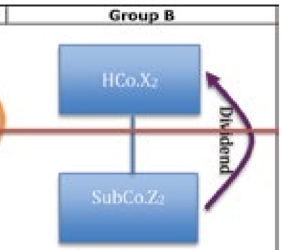
Group A and Group B each has a Holding Company in Country X (which are HCo.X_1 and HCo.X_2, respectively) and operating subsidiaries in Country Z (which are SubCo.Z_1 and SubCo.Z_2, respectively).

SubCo.Z_1 is funded mostly through loans from the parent company, on which an annual interest expense of 100 units is payable. On the other hand, SubCo.Z_2 is only funded through equity.

In a particular financial year, SubCo.Z_1 and SubCo.Z_2 each have Earnings Before Interest and Taxes (EBIT) of 100 units. Both subsidiaries have a policy of distributing all after-tax profits as dividends to the parent company.

Country Z has a corporate income tax (CIT) rate of 35% and a withholding tax (WHT) rate of 20% on all interest and dividend payments.

Country X is a low tax jurisdiction, with a CIT rate of 10%. Interest and dividends received by a resident company are taxable as ordinary income. It grants unilateral double taxation relief (DTR) by way of an ordinary foreign tax credit (OFTC).

	Group A	Group B
Country X: CIT = 10% DTR = OFTC **Country Z:** CIT = 35% WHT = 20%	 Figure 1	 Figure 2
Country Z (Taxes)	EBIT = 100 Interest = (100) Income = 0 CIT @ 35% = 0 After-tax profit = 0 WHT (interest) @20% = 20 Dividend paid = 0 WHT (dividend) @20% = 0 Net distribution = 0 Country Z taxes = 0+20+0 = 20	EBIT = 100 Interest = (0) Income = 100 CIT @35% = 35 After-tax profit = 65 WHT (interest) @20% = 0 Dividend paid = 65 WHT (dividend) @20% = 13 Net distribution = 52 Country Z taxes = 35+0+13 = 46
Country X (Taxes)	Interest = 100 Dividend = 0 Total income = 100 CIT @10% = 10 FTC = (10) Taxes payable = 0	Interest = 0 Dividend = 65 Total income = 65 CIT @10% = 6.5 FTC = (6.5) Taxes payable = 0
Country X & Z (Total taxes)	Total taxes = **20** Group after-tax net position = **80**	Total taxes = **46** Group after-tax net position = **52**

It is clear from the above that Group A, as a single economic entity, has a better after-tax net position than Group B. That is, Group A has a lesser tax burden as a whole. If a tax treaty existed between Country X and Country Z, it may limit the source country's (i.e. Country Z) taxing right through a WHT rate reduction on interest and dividends from 20% to 10%, 5%, or to even 0%. This would result in Group A having a much better after-tax net position than Group B.

In the absence any counter measures, the tax base of Country Z can seriously be eroded through use of structures such as that of Group A. It is this aggressive tax planning method that the interest deduction limitation rule is seeking to address.

Pre-existing interest deduction limitation rules in Zambia

Withholding taxes

Withholding taxes do play a role in curbing excessive interest deduction. But this role is quite limited. This is because countries usually impose WHT at rates that are lower than the corporate income tax rates. For example, the WHT rate in Zambia on interest paid to a non-resident is generally 20% while the domestic CIT rate is 35%. Multinational Enterprises ("MNEs") would rather obtain an interest expense deduction and pay WHT at 20%, than pay CIT on that same amount at 35%. The benefit to the group can be greater if the interest is being paid to an entity that is located in a low or no tax jurisdiction or in a country with which Zambia has a tax treaty that has a favorable interest WHT rate.

Thin capitalization rule

Until the end of 2018, Zambia had a thin capitalization (ThinCap) rule contained under paragraph 22A of the 5th Schedule to the Income Tax Act. This rule, which limited interest expense deduction to a debt to equity ratio of 3:1, had some limitations. The first inadequacy of such a ThinCap rule is that a debt to equity ratio does not completely eliminate excessive interest expense deduction claims. A company (or MNE) only needs to make proportionate increases to both the numerator (debt) and denominator (equity) to ensure the threshold ratio remains the same, and yet claim an additional or increased interest expense deduction. The second challenge of the ThinCap rule, specifically as it relates to Zambia, was that it only applied to one business sector – the mining sector. The gearing ratios of all sectors were largely uninhibited, subject to transfer pricing rules.

Transfer pricing rule

Section 97A of the Income Tax Act requires that dealings between related parties be on arm's length terms[1]. In the case of interest payments or debt acquisition, the tax authority would be seeking to establish whether the interest or debt level of an entity would have obtained, had the entity been dealing with an unrelated third party. If not, the excessive interest expense would be non-deductible, and in some countries, re-characterized as a dividend payment.

The limitations of the arm's length test include that "it can be resource intensive and time consuming for both taxpayers and tax administrations to apply. Also, because each entity is considered separately after arrangements are entered into, the outcomes of applying a rule can be uncertain, although this may be reduced through advance agreements with the tax administration"[2]. These challenges apply even more so for developing countries like Zambia.

General anti-avoidance rule

The general anti-avoidance rule (GAAR), under Section 95 of the ITA, gives the Commissioner General (CG) power to counter any transaction made by a taxpayer if the main purpose or benefit from that transaction is a reduction or avoidance of tax. It follows that if the CG is of the view that the decision to fund a company through loans as opposed to equity was mainly done to secure an interest expense deduction, the CG may disallow the whole or part of the interest.

While the GAAR might appear to be a readily available and easy to use tool by the tax authority, it always leads to protracted tax disputes due to its subjective nature.

Purpose test

Section 29(1) of the ITA gives the CG power to disallow interest on loan capital if the loan was NOT "employed wholly and exclusively for business purposes or in the production of income". The inadequacy of this provision is that it does not address the issue of preference for loan over equity. It only looks at the utilization of the loan. Since in most cases the loan would have been used for business purposes, it follows that the full interest expense would almost always be tax deductible.

International best practice – OECD BEPS Action 4 Recommendations

Statement of the problem

Following a realization that the "integration of national economies and markets has increased substantially in recent years, putting a strain on the international tax rules, which were designed more than a century ago"[3] and that "weaknesses in the current rules create opportunities for base erosion and profit shifting (BEPS)"[4], in September 2013 the Organization for Economic Cooperation and Development (OECD) and the G20 "adopted a 15-point Action Plan to address BEPS"[5].

Of these 15 BEPS Action Plans, Action 4 on *Limiting Base Erosion Involving Interest Deductions and Other Financial Payments "called for recommendations regarding best practices in the design of rules to prevent base erosion through the use of interest expense. Base Erosion and Profit Shifting (BEPS) risks in this area may arise in three basic scenarios:*

Groups placing higher levels of third party debt in high tax countries.

Groups using intragroup loans to generate interest deductions in excess of the group's actual third party interest expense.

Groups using third party or intragroup financing to fund the generation of tax exempt income"[6].

Salient recommendations of the BEPS Action 4 Report

In very brief terms, and without attempting to do justice to a 120 page-long document, the OECD's main recommendations (and Zambia's position on the same) are summarized in the table below:

OECD Recommendation	**Zambia's Position**
(a) Countries should consider introducing a fixed ratio rule that allows entities to deduct interest expenses up to a specified proportion of Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA):	Yes, fixed ratio rule introduced effective 1 January 2019
i. The rule should be based on net interest expense;	No, rule based on gross interest
ii. Such a rule can apply to all entities, including those in a multinational group, a domestic group and standalone entities;	Yes

1 Section 97A, ITA
2 OECD/G20 BEPS Project, Limiting Base Erosion Involving Interest Deductions and Other Financial Payments, Action 4: 2015 Final Report, p.19
3 OECD/G20 BEPS Project, *Limiting Base Erosion Involving Interest Deductions and Other Financial Payments, Action 4: 2015 Final Report*, p.3
4 Ibid, p.3
5 Ibid, p.3
6 Ibid, p.11.

iii.	The recommended range for the ratio is between 10% and 30%;	Maximum ratio of 30% adopted
iv.	Interest paid to third parties, related parties and group entities is deductible up to this fixed ratio;	Yes
v.	Any interest which takes the entity's ratio above the benchmark is disallowed;	Yes
vi.	Exempt income be excluded from the application of this rule;	Position unclear
vii.	As an option, include a Group ratio rule that would allow an entity to deduct net interest expense up to its group's net interest/EBITDA ratio, where this is higher than the benchmark fixed ratio;	No
viii.	As an option, include a *de minimis* threshold so as to exclude low risk entities from the scope of the fixed ratio rule and/or group ratio rule;	No
ix.	Special treatment (exception) can be given to the banking and insurance sectors; and	Yes, fixed ratio rule is not applicable to the banking and financial, insurance and pension sectors
x.	As an option, the rule could allow carry-forward of disallowed interest;	Yes
(b)	That the fixed ratio rule can be used along with other existing rules on limiting interest deductions, but that the rule is incompatible with the thin capitalization rule; and	Yes, ThinCap rule abolished
(c)	Introduce targeted rules to support the fixed ratio rule.	No

In general, Zambia has adopted most of the OECD recommendations, but with notable significant deviations that are discussed further below.

The new interest deduction limitation rule

The old and the new – a comparison

Zambia is not the only country that, for a long time, had relied on the ineffective or insufficient rules discussed in section 3 above.

Following the OECD BEPS Action 4 Report of 2015, Zambia adapted the report's recommendations by amending Section 29 of the Income Tax Act that provides a general rule for income tax deductions. A comparison of the old and the new (interest) deduction rule under that Section is shown below. The changes introduced by the Income Tax (Amendment) Act No. 17 of 2018 are highlighted in ***bold italics***, while the emphasis areas are underlined.

29 (1) Subject to the provisions of this Part –

(a) in ascertaining business gains or profits in ***a*** *charge year, there shall be deducted the losses and expenditures, other than of a capital nature, incurred in that year wholly and exclusively for the purposes of the business,* ***except that a deduction shall not be allowed on gross interest expense that exceeds thirty percent of the tax earnings before interest, tax, depreciation and amortisation****; and*

(b) in ascertaining income from a source other than business, only such expenditure, other than expenditure of a capital nature, is allowed as a deduction for any charge year as was incurred wholly and exclusively in the production of the income from that source.

Provided that on the amount payable by way of interest upon money borrowed by any person where the Commissioner-General is satisfied that the loan or advance was obtained for capital employed wholly and exclusively for business purposes or in the production of income, a deduction shall be allowed.

(2) Only one deduction is allowed under this Act in respect of the same matter in any charge year.

(3) Despite subsection (1) (a), interest, including disallowed interest, is subject to the deduction of withholding tax in accordance with section 82A.

(4) Interest on which a deduction is not allowed under this section may be carried forward and treated as incurred during the next charge year, except that interest shall not—

(a) exceed thirty percent of the tax earnings before interest, tax, depreciation and amortisation; and

(b) be carried forward for more than five years.

(5) Section 97A applies to interest which is allowable as a deduction under this section or which would, but for this section, be allowable as a deduction.

(6) This section does not apply to an institution registered under the Banking and Financial Services Act, 2017, the Pension Scheme Regulation Act, or the Insurance Act, 1997.

(7) For the purposes of this section —

"gross interest expense" means the interest paid or accrued by a business in a charge year;

"interest" includes interest on all forms of debt, payments that are economically equivalent to interest and expenses incurred in connection with the raising of finance to the extent that the incidental costs of raising finance are not covered by section 44(n); and

"tax earnings before interest, tax, depreciation and amortisation" means the sum of taxable income, gross interest expense, depreciation and amortisation.

The new fixed ratio rule – an analysis

The amended Section 29 of the ITA raises a number of issues that are worthy of a critical analysis.

Apparent override of Section 29(1)(a)

While sub-section 1(a) of Section 29 provides for a limitation of the interest expense deduction to 30% of tax-EBITDA, the subsequent proviso seems to have an overriding effect. The proviso states that:

Provided that on the amount payable by way of interest upon money borrowed by any person where the Commissioner-General is satisfied that the loan or advance was obtained for capital employed wholly and exclusively for business purposes or in the production of income, a deduction shall be allowed.

It would seem that, despite the restrictive conditions imposed by Section 29(1)(a) and (b), if a taxpayer provides sufficient evidence to satisfy the CG that a loan was obtained for business purposes, the taxpayer could be granted a full (i.e. without limitation) interest expense deduction. It must be noted that the CG is expected to exercise this discretion reasonably. *"[I]f there is proof that the Commissioner General has exercised his discretion unreasonably and in a capricious manner that would be sufficient ground for the High Court to exercise its inherent jurisdiction of judicial review"*[7].

Use of "gross" as opposed to "net" interest expense

The use of "gross interest expense to tax-EBITDA" ratio can be problematic if an entity obtains a loan, but has no immediate use of it (for one reason or the other) and decides to on-lend it to another entity on a short or long-term basis. Under this scenario, the entity may not be allowed to claim a full deduction of the interest paid on account of the fixed ratio rule, but it will still be taxed in full on the interest receivable. It is perhaps for this reason, among others, that the OECD recommended using the ratio of net interest expense to tax-EBITDA instead.

One deduction in respect of each matter

Sub-section 2 of Section 29 provides as follows:

(2) Only one deduction is allowed under this Act in respect of the same matter in any charge year.

In light of the fact that Section 29(4) allows interest disallowed to be carried forward for a maximum period of 5 years, the meaning and implication of Section 29(2) is unclear. For example, if part of an interest expense is allowed as a deduction in one tax year and a portion of it is carried forward, the part allowed would constitute "one deduction…in respect of the same matter in any charge". Therefore, any amount carried forward would not qualify for deduction, since "one deduction" would have already been claimed in respect of that item or matter.

Suppose it is argued, to the contrary, that the part that is allowed in that particular year does not constitute "one deduction". In the event that the portion carried forward remained un-utilized until it expires, the taxpayer would then be said to have been denied a deduction in respect of that matter – which would be contradictory to the very Section 29(4). Either way, we end up in a "catch-22" situation!

Fixed ratio rule and transfer pricing rules

Section 29(5) provides that:

Section 97A applies to interest which is allowable as a deduction under this section or which would, but for this section, be allowable as a deduction.

This provision is rather confusing. One would expect that the transfer-pricing (TP) rules under Section 97A would take precedence over Section 29. In other words, the fixed ratio rule should only apply to interest expense that has passed the arm's length principle under the transfer pricing rules. It seems that it would be impossible to make a TP adjustment on the allowed portion of the interest expense. This is because, being a proportion, the allowed amount might be a composite of many transactions which may not easily be split up for a comparability analysis. Besides, the idea of a fixed ratio rule is to limit the deduction of the interest expense that would otherwise have qualified. That is, the interest expense being restricted is that which would have already met the arm's length principle.

Definition of tax-EBITDA

Section 29(7) defines tax-EBITDA as follows:

"tax earnings before interest, tax, depreciation and amortisation" means the sum of taxable income, gross interest expense, depreciation and amortisation.

It is very uncommon that a large group of words is defined by yet another large group of words. By so doing, the meaning is completely lost!

Use of the term "taxable income" – tail chasing

As indicated in 5.2.5. above, Section 29(7) defines tax-EBITDA as the "*sum of taxable income, gross interest expense, depreciation and amortization*".

It might be argued that the term "taxable income" was inappropriately used under this section. This is because the ITA uses this term interchangeably with the term "assessable income", which is defined as *"… the amount of a person's income liable to tax which may be included in an assessment and which remains after allowing the deductions, to which that person is entitled under the provisions of this Act"* (see Section 2, ITA).

Considering that the purpose of the fixed ratio rule is to calculate the deductible interest amount so that the taxable income can be determined, using the same term (of taxable income) to define tax-EBITDA culminates only in a cyclic result. It is a never-ending tail-chasing race!

It appears that the legislature picked the term "taxable income" from the OECD BEPS Action 4 Report. But in that report, the term was used to mean non-exempt income. That is, the EBITDA should not include income that is exempt from tax under the country's domestic law.

Therefore, the cyclic nature of the above definition makes the fixed ratio rule as contained in the ITA inapplicable!

Lack of a *de minimis* threshold

The Zambian government opted not to adopt the OECD recommendation to include a *de minimis* threshold. While it is true that this recommendation was optional, its adoption would have been ideal in order to eliminate small entities that do not pose a huge tax loss risk. In turn, the administrative burden of implementing the rule would have been made lighter.

Conclusion

In terms of stamping out aggressive tax planning that result in base erosion using interest expense, the introduction of the fixed ratio rule is a commendable move by the government.

However, the current wording of the law will make the application of the rule difficult, if not impossible. For example, the law includes a proviso which seems to override the rule. Further, the tail-chasing nature of the definition of tax-EBITDA makes the application of the rule a fruitless effort.

The Author is of the view that Section 29 should have been completely re-written, as opposed to hole-patching. Most of the foreseen interpretation or application difficulties (that are highlighted in this paper) stem from the fact that the new rule was infused into the old rule. In the process, the legislature overlooked amending some aspects of the old rule that are (or would be) in conflict with the new rule. Remember the parable of the wineskins!

Finally, it should be mentioned that the fixed ratio rule introduced by Zambia is not entirely in conformity with the OECD recommended best practice.

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7 The Revenue Appeals Tribunal, Lusaka Water and Sewerage Company vs Zambia Revenue Authority, Case No. 1999/Rat/36, p.3

HOW GOVT ABANDONED SALES TAX

By Accountant Writer

DURING the ZICA, Economics Association of Zambia and Zambia Chamber of Commerce and Industry post-budget analysis at Hotel InterContinental in Lusaka 28 September 2018, Finance Minister Dr Bwalya Ng'andu highlighted how intractable the debate on whether government would go with sales tax or VAT was.

He said following his appointment, he first contacted officials from Ministry of Commerce to find out if they had support for the Sales Tax and also how it was going to be implemented.

"I was told that they didn't support it. Now if you are Minister of Finance, you know that if you are going to implement a tax regime, one of your allies are the people from the Ministry of Commerce and that made me a little worried," he explained.

He said he then thought of having a meeting with his ministry staff to understand the issues and the discussion culminated in a very serious analysis.

He said he had a horrible feeling that he had no idea either to go with Sales Tax or VAT.

"Tax confuses me, I am not a very smart man…tax really confuses me, but if you are Minister of Finance and you are to go to Cabinet and present a tax regime, you have to own it and at that time I didn't think I owned it so I decided to continue with the discussions with everybody," he said.

"I think in the end the feeling was that Sales Tax had inherent problems in it which include the cascading effect which I talked about [during budget presentation]. And also if you remember the initial tax rate was supposed to be 9 per cent but now if you have a cascading effect and imagine a distribution chain which is three or four points, at the end of that chain the amount of tax you are required to pay would be quite huge and businessmen being rational human beings their tendency would be to cut that chain but cutting that chain is simply a fancy way of saying jobs would be lost. Now this is where the politician in me comes in."

Dr Ng'andu said if jobs are lost a year before elections, one would have no time to recover.

He said in the end it was realised that may be the problem was not one of changing the tax policy but one of examining how to manage the existing VAT regime itself.

"And that it was possible to fix VAT. Furthermore, if you don't fix VAT, the same administrative challenges that you face now would also find their way in the implementation of Sales Tax. So for example if the problem is that there is cheating, there is fraud, there is duplicating payments, as a problem with VAT, and you can't catch the guys who are doing it, what about Sales Tax?" he asked. "The problem would still continue. So on that basis and given the fact that we believe we got almost unanimous with the business people that may be we should stay where we are, we have stayed where we are. It is not to say it is the best system in the world as far as tax is concerned but you all know that VAT is probably the most exercised tax system in the globe and I think for a good reason."

Dr Ng'andu noted that there was no perfect tax system.

He said he hoped with the measures he announced, the ZRA would put in place administrative measures to stop VAT hemorrhaging that was taking place.

ZICA president Jason Kazilimani thanked Dr Ng'andu for gracing the event.

He told Dr Ngandu that his maiden budget speech went "pretty well".

He noted that a number of budget submissions by ZICA and other organisations were captured in the 2020 budget.

ZICA, FIC SIGN MOU FOR COLLABORATION

THE Zambia Institute of Chartered Accountants (ZICA) and the Financial Intelligence Centre (FIC) on December 10 signed a Memorandum of Understanding (MoU) that commits the two organisations to increased collaboration.

The organisations have agreed to co-operate and assist each other in fulfilling their respective legislative responsibilities and obligations. The MoU aims to strengthen and formalise the exchange of information between the organisations with respect to combating money laundering, terrorist financing and other serious crimes and ensuring compliance of the Act by reporting entities.

Furthermore, the MoU allows the parties to collaborate to improve the effectiveness of their organisations by encouraging and supporting the exchange of technical expertise, knowledge and training opportunities between their respective members of staff where resources are so permitting.

The MoU is entered into pursuant to section 36(1) of the Act, which provides that:

"Where a supervisory authority has reasonable grounds to believe that a business transaction indicates that a person has or may have been engaged in money laundering, the financing of terrorism or any other serious offence, it shall disclose , or cause to be disclosed, that information to the Centre."

In signing the MoU, it is anticipated that the collaboration will act as a tool through which the parties shall implement the provision of the Act as highlighted above.

Additionally, where ZICA plans to carry out inspections of registered firms in order to ascertain whether those firms are adhering to anti-money laundering laws and regulations, ZICA may do so in consultation with the FIC.

To enhance the skills base, the FIC will provide training to ZICA to capacitate it to carry out training to firms of accountants and auditors registered with ZICA on anti-money laundering and terrorist financing on an ongoing basis to ensure that such firms understand their obligations under the Financial Intelligence Centre Act and the Anti-Terrorism and Proliferation Act.

The MoU also allows for collaboration where ZICA is conducting training for its members and experts are required on the subject of anti-money laundering and terrorist financing, the FIC may provide subject matter experts to speak at such trainings. Furthermore, where the FIC is planning to issue new legislation or regulations on anti-money laundering and terrorist financing, the FIC will engage ZICA on those new regulations.

Issued by the Zambia Institute of Chartered Accountants and the Financial Intelligence Centre.

ZiCA
Zambia Institute of Chartered Accountants

For the ZICA
Bonna Kashinga
Secretary and Chief Executive

REPUBLIC OF ZAMBIA
FINANCIAL INTELLIGENCE CENTRE

For FIC
Mary Chirwa
Chief Executive Officer

IFRS 16, LEASES - KEY CHANGES AND WORKING CAPITAL CONSIDERATIONS

Introduction

Over the last year, many finance teams have successfully implemented two new accounting standards, IFRS 9 – *Financial instruments* and IFRS 15 – *Revenue from contracts with customers* and are realising that the level of effort required and changes have been greater than anticipated.

Drawing from this experience, finance teams will need to engage early enough to understand the key changes and wider business implications of implementing IFRS 16 - *Leases* which replaces IAS 17 and came into effect on 1 January 2019. IFRS 16 is expected to result in a fundamental change in the lease accounting model under IAS 17 of which lessees distinguished between on-balance sheet finance leases and off-balance sheet operating leases. Instead, IFRS 16 will result in a single on-balance sheet accounting model which is similar to the finance lease accounting under IAS 17 and will bring all leases onto the balance sheet unless certain exemptions are met. This change is expected to result in increased transparency and comparability.

Almost all companies in every sector lease rather than own some of their operating assets from financial institutions with leased branches and ATMs to retailers with leased stores. The purpose of this article is to highlight the key changes expected from the implementation of IFRS 16 and the potential impact on working capital considerations for various stakeholders.

Accounting by lessees

Under the new standard, the lessee recognises a right-of-use (ROU) asset at cost and a lease liability. Leases will be accounted for as if the company had borrowed funds to purchase a leased asset.

Right of use asset = Lease liability + initial direct costs + Prepaid lease payments + estimated costs to dismantle, remove or restore, measured in accordance with IAS 37 less lease incentives received.

Lease liability = Present value of lease rentals + Present value of expected payments at the end of the lease.

The discount rate used in the present value calculation above is the interest rate implicit in the lease which is the rate that causes the present value of lease payments and the unguaranteed residual value to equal the sum of the fair value of the underlying asset and any initial direct costs of the lessor. If the lessee cannot readily determine the interest rate implicit in the lease, then the lessee uses the incremental borrowing rate for a similar type of arrangement.

The ROU asset will be depreciated on a straight-line basis and the lease liability is discounted using the effective interest method. Therefore, the total lease expense in profit or loss is now going to be presented as interest and depreciation expense rather than an operating expense under IAS 17.

Lessees have optional exemptions in applying the new standard to the following arrangements:

Short term leases of which the lease term is determined as 12 months or less.

Leases of low value items i.e. assets with an asset value of USD5,000 or less even if material in aggregate.

Accounting by lessors

The International Accounting Standards Board (IASB) aimed to minimise the changes to lessor accounting and therefore much of the guidance in IFRS 16 is substantially the same as under IAS 17.

Working capital considerations

Most companies and users understand that the new standard brings more leases on-balance sheet but very few considerations have been made as to the expected impact on working capital. Below is a simple example of the expected changes.

A company is currently leasing its office premises on a three-year lease term with an annual rent of USD10,000 and ROU asset is recognised at a cost of USD30,000. A corresponding entry will be made to current liabilities for the amount due over the next year i.e. USD10,000 and the remaining USD20,000 recognised as a long term liability.

Example balance sheet

	Presentation prior to IFRS 16 adoption (USD)	**Presentation under IFRS 16 (USD)**
Fixed assets (non-current)	10,000	40,000
Current assets	40,000	40,000
Total assets	**50,000**	**80,000**
Current liabilities	20,000	30,000
Non-current liabilities	20,000	40,000
Total liabilities	**40,000**	**70,000**
Net assets	**10,000**	**10,000**

Liquidity measures/ratios

	Presentation prior to IFRS 16 adoption (USD)	Presentation under IFRS 16 (USD)
Working capital	20,000	10,000
Current ratio	2x	1.33x
Debt to equity ratio	4x	7x

Based on the illustration above, companies should expect an adverse impact on various measures of liquidity. Users of financial statements, including investors and lending institutions use liquidity measures to assess how well a company can liquidate its assets to meet its current obligations. Companies that have ordinarily had a positive working capital position could end up in a negative working capital position resulting in further assessments about the company's ability to meet its short-term obligations. Investors and lending institutions should consider assessing whether the on-balance sheet accounting of leases will have a significant impact on their investment and lending decision making processes and contract negotiations.

Other considerations

Potential impact on computation of regulatory capital

Regulated financial institutions that recognise ROU assets on the balance sheet will need to assess the impact of this asset in the calculation of regulatory capital. The Basel Committee on Banking Supervision issued a press release dated 6 April 2017 for "frequently asked questions" related to lease accounting which states that the "ROU should not be deducted from regulatory capital so long as the underlying asset being leased is a tangible asset." The press release further states that an "ROU asset should be risk-weighted at 100%, consistent with the risk weight applied historically to owned tangible assets." Guidance should be sought from the local regulator, Bank of Zambia, if clarity is needed on the treatment of ROU assets in the computation of regulatory capital.

Sales lease back arrangements

Sales lease back arrangements are complex transactions where an entity transfers an asset to another entity and then leases it back with the objective of providing off-balance sheet financing. Under IFRS 16, the seller or lessee will recognise the sale leaseback transaction on-balance sheet unless the leaseback is short or the underlying asset is of low value. Despite this change to on-balance sheet accounting, companies can still explore this option to free up cash for working capital needs.

Things to think about now

Transition to IFRS 16 will require time and the possible impact is too far reaching to wait until the last minute. As we approach the close of the 2019 financial year, finance teams should evaluate the impact that this new standard will have beyond just financial reporting. Planned lease arrangements should be carefully reviewed and negotiated to ensure that the potential impacts of the new standard on wider business practices are minimised. ■

TECHNICAL UPDATES

Auditing and Assurance

5 Key Factors to Enhance Audit Committee Effectiveness

Corporate failures and scandals across countries, including the recent collapses of Carillion, Patisserie Valerie and London Capital & Finance in the UK, failings in South Africa's state-owned entities Transnet, Eskom, and South African Airways, and the 1MDB scandal in Malaysia to name a few, have all focused political and regulatory attention on the audit profession and also exposed serious corporate governance failings.

The result is increased debate globally on audit and governance regulatory reform.

Companies do not fail because of poor quality audits. An audit is designed to enhance confidence in financial reporting, but it does not relieve management or those charged with governance of their responsibilities. Ultimately, corporate failures and the resulting impacts on financial statements are consequences of poor governance and decisions.

IFAC strongly supports efforts to strengthen and clarify the roles of boards and audit committees in exercising oversight of the statutory audit and financial reporting processes led by management, including addressing perceptions that audit committees are not sufficiently independent of management, or that there is insufficient communication from the audit committee to shareholders.

Effective audit committees are a critical part of delivering trust and confidence in reporting and risk management. However, globally audit committee responsibilities are widening beyond their core financial reporting oversight responsibilities, putting them under increasing pressure both in terms of time and expertise to oversee the major risks on their agendas in addition to fulfilling their core mandates.

Audit committee responsibilities vary widely across jurisdictions, sectors and between companies. It is important to recognize that there is no one-size-fits-all model for audit committees and therefore enhancing their effectiveness will be more dependent on adoption of good practices rather than further prescriptive legislation or additional regulatory scrutiny.

With the input of IFAC's Professional Accountants in Business (PAIB) Committee we have been exploring ways to enhance audit committee effectiveness and have identified five key factors:

1. Audit committee transparency

Increased transparency on how an audit committee has discharged its duties is crucial and enables a more informed assessment of its performance and effectiveness.

Many corporate governance codes and regulations include requirements around audit committee disclosure. In addition, voluntary disclosures continue to grow, reflecting that audit committees are responding to evolving expectations of investors and other stakeholders.

2. Effective communication

The importance of effective communication flows to and from the audit committee cannot be overstated. This includes written and in person, formal and informal, communication with management, internal and external audit, the CFO and finance function, and the board.

For support in its oversight role, the audit committee relies on:

Meaningful insight from management on emerging risks on the horizon and focused updates on what is happening in the business, moving beyond the basics of what they do to focus on specific challenges, risks and opportunities

Concise and understandable meeting materials from management, the CFO and finance function, as well as internal and external audit. The volume of materials an audit committee must review can become unmanageable. Written information presented to the audit committee needs to communicate only the most important and relevant information for their attention

Unrestricted access to the auditors without management present, as well as ongoing dialogue with the auditors outside of the audit window, to deal with issues on an ongoing basis and not just at the time of the audit

Informal communication with management and the CFO between audit committee meetings

Direct access to teams and departments, including those outside of finance, when appropriate (and ensuring the audit committee does not overstep its governance role).

3. Committee composition – including appropriate skills, competencies and expertise

Ensuring the right composition of the audit committee is vital but can be challenging. Requirements vary across jurisdictions, but generally there must be at least one member who is financially literate. This can put a huge burden on one individual if they are the only person on the audit committee to have financial reporting and accounting expertise.

Diversity of experience, perspectives and expertise, as well as industry knowledge are also extremely important, particularly given the widening mandates of audit committees beyond financial reporting oversight.

4. How it gets its work done – efficient and effective ways of working

Audit committee mandates typically always widen, but nothing is generally removed. With increased workload along with increased complexity of risks on their agendas, audit committees need efficient and effective ways of working to ensure they can successfully discharge their oversight responsibilities.

Good practices include:

Having well-defined terms of reference setting out a clear scope of responsibilities, which are widely understood by the audit committee members, as well as by others in the organization including the board, CFO and finance function

Coordination between auditor, audit committee, and internal auditor to prevent duplicated effort, increased cost and poor effectiveness

Appropriate frequency and efficiency of meetings with focused agendas that allow sufficient time and attention for in-depth discussion on critical areas, as well as flexibility to add additional items as they arise

Producing short summaries to circulate to audit committee members in advance of meetings outlining key areas of focus for discussion

Holding a call or prep meeting between the audit committee chair and the auditor before each audit committee meeting.

5. Strength of the finance function

The finance function is responsible for producing reliable and auditable information for external disclosure. The strength of the finance function is therefore critical in supporting the oversight role of the audit committee, which can be severely inhibited by a weak finance function that lacks capacity, expertise or effective CFO leadership.

Considerations for the audit committee include whether the finance function is appropriately staffed and resourced, has suitably qualified people in key positions, as well as whether it has support for its continued development.

The audit committee also needs to consider whether they should have a role in appointment of key finance staff and finance function succession planning.

To maximize the finance function's value to the business, organizations need mechanisms in place to assess its effectiveness and support its development. Ultimately this responsibility lies with the board but may too be delegated to a committee of the board such as the audit committee.

To support finance function transformation, IFAC has recently launched its "Future-Fit" series, which includes a high-level evaluation tool designed to support dialogue at the board (or audit committee) on the importance of finance function development, as well as help to identify priority areas for finance function investment.

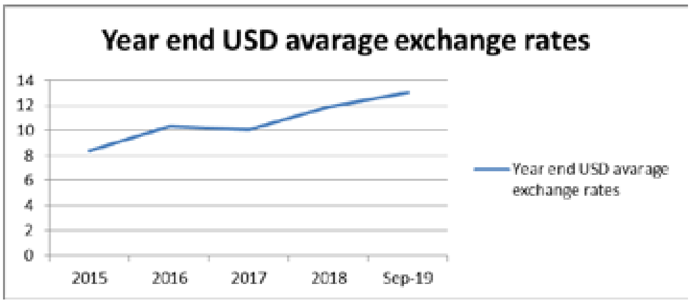
ZICA COMMENTS ON THE 2020 BUDGET
INTRODUCTION

The Zambia Institute of Chartered Accountants is a professional membership body whose function among others is to advise government on matters of economic and national development. As per tradition, the Institute wishes to submit its overall comments on the 2020 National Budget presented to the Parliament on Friday, 27th September, 2019 by the Minister of Finance, *Hon. Dr. Bwalya Ng'andu*, *MP*, under the theme ***"Focusing national priorities towards stimulating the domestic economy".***

We are happy with the budget, considering that the Minister had very tight budgetary constraints to deal with, but subject to a few areas that need improvement. We are also pleased with the decision to cancel plans to introduce GST and continue with a modified VAT system. The success will depend on the housekeeping measures that ZRA proposes and the quality of implementation.

Overview of the Global and Domestic Economies

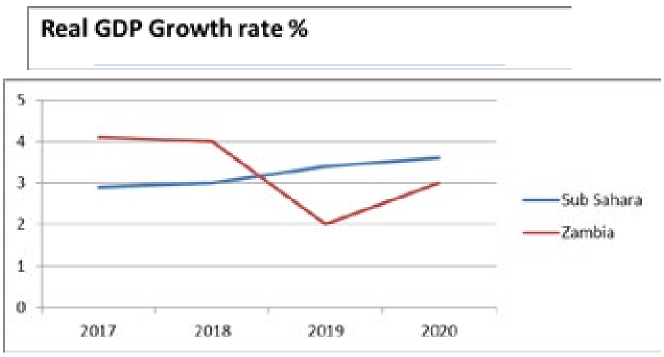
The 2020 National Budget was presented against the backdrop of growing concerns about the sustainability of the country's debt and negative sentiments of the country's possibility of falling into high risk of debt distress. The economic growth is expected to slow down to 2% by the end of 2019 which is 50% of the targeted 4% and growth of 3.7% in 2018. The slowdown in growth is primarily attributed to the impact of climate change, debt servicing and the escalating trade war between the US and China. On the foreign exchange market, the Kwacha depreciated by 9.4% to an average of K13.03 to 1 USD by August 2019 since December 2018, when the Kwacha stood at K11.91 to the USD. The depreciation was largely due to the increased demand for energy imports, debt servicing, and strengthening of the USD.



Graph 1: Source Ministry of Finance

At a global perspective, growth remains subdued. The trade war between the United States of America and China as well as uncertainty regarding trade agreements post BREXIT contributed to a decline in GDP growth from 3.8% in 2018 to 3.2% in first half of 2019. Europe and Asia experienced the sharpest declines. Forecast growth in 2020 is 3.5% based on stabilisation of conditions in the EU area and emerging markets, the ongoing build-up of economic stimulus in China and recent improvements in global financial markets. The growth across emerging markets and developing economies is projected to be 4.1% in 2019 and 4.7% in 2020.

GDP growth in Sub Sahara Africa was 3% in 2018 compared to 2.9% in 2017. It is expected to reach 3.4% in 2019 than 3.6% in 2020. This is on account of increased investment in larger economies in SSA together with growth in non-resource intensive countries.



Graph 2: Source Ministry of Finance
Macroeconomic Framework and Social Protection Issues

3.1 Social Protection Issues

Considering the tight budgetary constraints, we are of the view that the amount budgeted for social protection (K2.58 bn representing a 17% increase to address increased poverty challenges due to drought, hunger, unemployment etc.) is reasonable.

Sector	2019 %	2020 %	Monetary 2019 @ K80.6B	Monetary 2020 @ K106B	Monetary Variance	Increase
Economic affairs	23.79	20.6	20.651	21.836	1.185	Yes
Education	15.29	12.38	13.274	13.122	-0.152	No
Health	9.3	8.84	8.069	9.366	1.297	Yes
Social protection	2.52	2.43	2.187	2.58	0.393	Yes
Environmental Protection	1.01	0.58	0.875	0.611	-0.264	No

However, we think the Government needs to improve internal controls and monitoring of social protection programs for them to have impact and avoid wastage and fraud (as was experienced in the social cash transfer scheme in 2018). It should consider introducing half yearly and random operational audits of these programs (Women and youth empowerment, SCT etc.) in addition to the annual audits. This will be a deterrent to Fraud and improve performance and impact.

However, it should be noted that these grant aided programs are not sustainable in the long term and the Government should shift focus to economic empowerment programs at community level gradually.

3.2 Factors that will influence the Macro economic objectives

The mounting trade tension between the United States and China coupled with the buoyant United States dollar are increasingly contributing to the depreciation of currencies for emerging and developing economies. Compounded by the deterioration in the budget deficit and current account deficit, the Kwacha has been a subject of foreign exchange exposure. In the final analysis these factors are likely to impact negatively on the economic projections in the Budget.

The country's economy is still heavily reliant on the mining operations for most of its economic output and accounts for 70% of Zambia's export of goods. However, the sector is dominantly led by a few major mining players and is highly susceptible to fluctuations in commodity prices and global economic conditions. Given the circumstances, it is a risky undertaking to place so much reliance in the Budget on the sector for part of the resource envelop.

In our view other challenges that are expected to have adverse impact on the 2020 Budget are:

Volatility in foreign exchange rates;

Cost of importing Electricity

Drought caused by low rainfall experienced in the country

The rising cost in the petroleum sector;

The rising budget deficit;

The ballooning public expenditure;

The cost of borrowing remains significantly high despite several interventions; and

Escalating interest payments on public debt;

Fiscal Framework

The Minister proposes to raise a total of K106 billion in 2020, representing 32.4 percent of GDP of this amount, K72.0 billion, representing 22.0 percent of GDP will come from domestic revenues, while the balance will be raised through domestic and external financing.

Indirect Taxes

4.1 Value Added Tax

Under Value Added Tax ("VAT"), in our view the measures proposed fall into three (3) broad categories as follows:

Measures aimed at reducing the accumulation of VAT refunds and expand VAT base ;

Measures aimed at encouraging households to use alternative sources of energy; and

House- keeping measures.

We consider each of these below.

Measures aimed at reducing the accumulation of VAT refunds and expanding the VAT base

Zero rate capital equipment and machinery for the mining sector

The objective of the proposed measure is to improve cash flow for the mining sector and reduce VAT refund claims.

Commentary

We welcome this move because currently, mining capital equipment and machinery are generally standard rated. However, VAT on certain qualifying mining equipment is deferred under the VAT deferment scheme. From the National Budget pronouncements, it is not clear whether this measure will complement the VAT deferment scheme or the deferment scheme will be abolished and all mining equipment (including equipment currently on the deferment scheme) will then become zero rated. We therefore look forward to clarifications in the amendment Act or subsidiary legislation.

Zero rate Copper cathodes for VAT purposes

The Hon. Minister proposes to zero rate the local supply of copper cathodes for VAT purposes.

Commentary

We welcome this measure as this will encourage local value addition, ease cash flow challenges by manufacturers and reduce input VAT claims due to exporters of products manufactured from copper cathodes.

Disallow input VAT claims on consumables such as stationery, lubricants and spare parts for all entities, except where these products are stock in trade

The Hon. Minister proposes to disallow input VAT on consumables except where such consumables are stock in trade. The Hon. Minister provides examples of consumables that are likely to be affected by this measure to include stationery, lubricants and spare parts.

Commentary

We would like to highlight that the budget so far does not provide much guidance on what would constitute a consumable or stock in trade. We look forward to clarifications in the amendment Act or subsidiary legislation.

As a result we can only speculate as to the definitions of these terms at this stage. In view of this our subsequent comments are based on general definitions of consumables.

As a starting point, the VAT Act does not define consumables and stock in trade.

Definition of consumables

However the Customs and Excise (General) Regulations 2000 defines consumables as:

"Consumables" means items that are utilized by an organization and are depleted on a regular basis, and includes fuel, lubricants, spare parts and tyres.

Further, the Oxford Dictionary defines consumables as:

A commodity that is intended to be used up relatively quickly.

Based on the general definitions, where a business uses goods in its production process and these goods do not form part of the finished products, then the goods may be considered to be consumables.

Taking the above into account, the measure may result in significant cost escalation for businesses.

For example, manufacturers of cement, detergent paste and lime use coal in processing their raw materials. As the coal does not form part of the final product, does it mean that it will be treated as a consumable?

Similarly with regard to the Mining sector, there are spares and consumables that are critical to the mining operations. Examples of critical consumables include:

Pump spares;

Metallurgical / smelting reagents;

Mill balls and grinding media;

Tyres and tubes for loaders, surface dump and haulage trucks and drill rigs; and

Explosives.

In the same manner that the Ministry of Finance consulted with various stake holders when deciding on whether to proceed with sales tax, we would recommend that similar consultations are held on what consumables to disallow for VAT purposes to avoid crippling some sectors of the economy.

Limiting input VAT claims on diesel from 90% to 70%

The Hon. Minister proposes to limit input VAT claims on diesel by mining and mineral processing companies from 90% to 70%.

Our Commentary

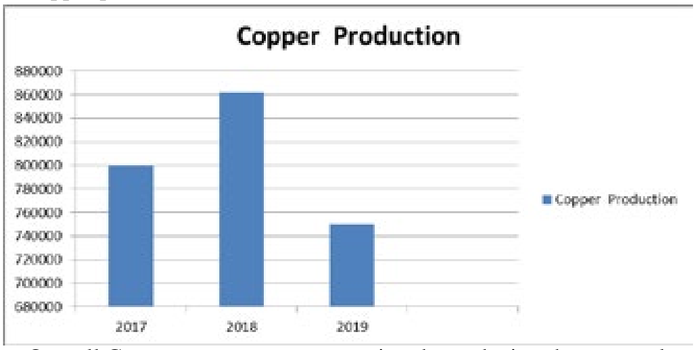
We welcome the measure as it will help increase the revenue for the Government.

Limiting input VAT claims on electricity from 100% to 80%

The Hon. Minister proposes to limit input VAT claims on electricity by mining and mineral processing companies from 100% to 80%.

Commentary

We welcome the measure as it is intended to generate more revenue for Government. However, we would have preferred a measure that cuts across all industries to avoid the perception that only one sector is targeted. We have taken note that copper production is projected to reduce to 750,000 mt in 2019 and that there is a general downward trend in copper prices on the international market.



Overall Commentary on measures aimed at reducing the accumulation of VAT refunds;

It is our considered view that these measures will help improve efficiency in the administration of the VAT, improve cash flow for local manufacturers who use the product like ZAMEFA as an input, reduce the VAT refund claims, promote the use of alternative sources of energy and thereby mitigating the effects of climate change and generate revenue for the Government.

However, we are concerned that The Hon. Minister also proposed that input VAT on consumables that are not stock in trade will be disallowed. Depending on the definition of consumables and stock in trade adopted by the tax authorities, this amendment could result in a significant increase in operating costs for the Mining Companies.

Hiking import duty on equipment's for the mining sector may seem to be good in the short term but it is likely to impact on the country's global competitiveness, and thus pose negative effect on the sector activity and in turn on employment. Mining companies carry out the various exploration and development activities prior to production over a long period of time, at high cost and in some cases with a high level of risk and uncertainty as to future commercial benefits. It is thus a unique industry that must be accorded special attention and requires stable fiscal policies.

We reiterate our proposal for engagement with the mining houses as a means of avoiding a slowdown in the sector. We further recommend building administrative capacity in the tax Authority and reviewing the tax regime to meet the best practice in revenue collection from the sector. In the long run the increases in the Mining tax will make the country very uncompetitive consequently forcing Mining companies to avoid investing in the country or put the mines on care and maintenance.

While the motive to increase tax collection from the mining sector is welcome, we would prefer a gradual and phased approach to changes to the mining tax regime to enable the affected parties to prepare and plan. We are of the view that the persistent changes to the mining tax regime will affect long-term investment, job creation and investor confidence in the sector.

On a positive side, the Minister is proposing a Zero rating of capital equipment and machinery for the mining sector, Reduction of capital allowances and Zero rate copper cathodes for VAT purposes to encourage local value addition, ease cash flow challenges by manufacturers and reduce input VAT claims due to exporters of products manufactured from copper cathodes and employment creation in the copper sub-sector. This is a very welcome move and it is our hope that Government will create an enabling environment to create corresponding industry to support this measure.

Measures aimed at encouraging households to use alternative sources of energy

The Hon. Minister proposes to zero rate:

•Gas stoves and other gas cookers;

•Gas boilers;

•Other appliances that use gas; and

•Liquefied Petroleum Gas.

Commentary

This measure will encourage the use of gas appliances and is intended to mitigate the effects of climate change by reducing reliance on electricity and charcoal for energy. We welcome the measure.

Housekeeping Measures on VAT

The following are the House Keeping measures proposed in respect of VAT

Make it mandatory to use Electronic Fiscal Devices (EFD) for VAT and other tax types and facilitate accreditation of EFD manufacturers, distributors and virtual EFD software suppliers and vendors.

The measure is intended to extend the mandatory use of EFDs to other tax types and provide for accreditation of manufacturers, distributors and vendors of EFDs.

Make it mandatory for all taxable suppliers to use Point Of Sale (POS) machines (swiping machines)

The measure is intended to make it mandatory for all taxable suppliers to have a Point of Sale (POS) machine as one of the payment options.

Make it mandatory to capture on the invoice, the Taxpayer Identification Number (TPIN) and Name of both the buyer and seller of goods and services in all Business to Business (B2B) and Business to Government (B2G) transactions.

The measure is intended to enhance tax compliance.

Amend the VAT Act by standard rating ancillary services to transits

Ancillary services include handling, administrative services provided to ensure that the necessary procedures and certificates are obtained for the transiting goods.

The implementation of this proposal may be marred by ambiguity in the determination of "ancillary services". In addition to this, establishing the degree of remoteness between the goods in transit and the services to be taxed may prove challenging. Whilst there has been abuse of ancillary service to mask local supplies that are unrelated to transit goods, we are of the view that alternative compliance measure should have been considered. The imposition of VAT on ancillary services may also discourage the use of Zambia as a staging base for transporters. For example, transporters use Zambia to break bulk cargo from larger trailers to smaller ones. Zambia is also used to stage the transition of goods from road to rail. This requires provision of significant services and the imposition of VAT may drive the search for alternative staging bases. The VAT imposed on transit shipped goods is often not recoverable as most customers are non-residents.

Delete the supply of an inclusive tour to a tourist by a tour operator or travel agent licensed as such under the Tourism and Hospitality Act, 2007, if the contract was entered into before 1st January, 2014, subject to such conditions as the Commissioner-General may require.

The measure is intended to remove the redundant provision

Amend paragraph D of Group 2 to empower the Commissioner General to be the sole issuer of Local Purchase Order (LPO) for zero rating.

The measure is intended to restrict the issuance of Local Purchase Orders to the Commissioner General only so as to curb the abuse of VAT zero-rating relief

Commentary

We are agreeable and support the house keeping measures proposed under VAT.

The proposed changes will enhance data matching and analysis to enable a more information technology driven approach to compliance. Emerging technologies such as data analytics can assist in a more risk-based approach to compliance monitoring that will cause the least disruption to compliant taxpayers whilst ensuring that non-compliance is detected early and dealt with.

Tax Online System ("TOS") for domestic taxes will be linked with the customs system making it possible to match profiles of customs importers with their VAT activities. It will be possible for example to match an importer of motor vehicles against their income tax and VAT profile to ascertain if their income supports the level of importation.

We note that the implementation of EFD's has been beset with significant challenges. These challenges need to be resolved to ensure that VAT performance is optimised. The accreditation of the value chain around EFD's (including virtual EFDs) must also be accelerated.

With increased integration of systems comes the potential for abuse. As such, we reiterate our call for comprehensive tax administration legislation that will ensure that the enhanced data collection capabilities are not used to the detriment of taxpayer rights.

Customs and Excise Tax

a) Remove customs duty on Liquefied Petroleum Gas.

This measure is intended to promote the use of alternative sources of energy and thereby mitigate the effects of climate change. We welcome this move and commend the government for this positive move.

This measure will further reduce the cost of LPG and make it more affordable for consumers to use gas powered appliances. However, other challenges remain that must be dealt with by regulation. These include the lack of interchangeability of gas cylinders that forces consumers to purchase or pay deposits for different types of cylinders at great cost. The Energy regulation Board has a significant role to play in ensuring that regulation is introduced to make cylinders interchangeable. This could be supported by introducing a cylinder exchange system for suppliers.

b) Amend the Customs and Excise Act to suspend customs duty for a period of three years, on selected equipment used in the aquaculture industry.

This measure is intended to promote the growth of the aquaculture industry in Zambia and hereby contribute to the economic diversification efforts of the country. We welcome this measure as it will help to promote the aquaculture sub sector and make community fish farming attractive, this measure is likely to increase investment in fish farming to increase fishery yield, reduce importation of fish and also reduce unemployment in the country. We would further encourage the Government to consider extending a moratorium to the entire value chain of the aquaculture industry.

c) Suspend customs duty for a period of three years, on machinery for processing of solid waste to generate electricity and produce organic fertilizers.

This measure is intended to promote the generation of electricity through Alternative means. The measure is also intended to promote the local Manufacturing of organic fertilisers. We welcome this positive move by Government because although this measure may lead to revenue loss in the short term, the future gains from this measure through increased electricity generation should reduce over dependence on hydropower and also compensate for the revenue loss.

Further, we are confident this measure will boost the local production of organic fertilisers to improve farming activities in Zambia.

d) Impose surtax on Flexible Intermediate Bulk Containers.

The Hon. Minister proposes to introduce a surtax at the rate of 5% on importation of flexible intermediate bulk containers. This measure is aimed at promoting local production of the containers (jumbo bags). We welcome this move. However, the purpose of introducing the surtax will only be achieved if there is local capacity to produce the containers and to achieve this objective, Government should assist local producers to scale up their capacity in the production of the containers.

e) Increase the specific excise duty rate on cigarettes to K265 per mille from K240 per mille

The measure is intended to maintain competitiveness of domestic producers of cigarettes and increase revenue collection for the Government.

The Mining Tax regime

a) 10% Import duty on importation of specified capital equipment

This measure is intended to raise revenue for Government and discourage transfer mis- pricing. We do not welcome the move to introduce 10% import duty on all mining inputs that attract 0% and 5% as it will not only increase the cost of doing business for the Mines but also discourage recapitalisation of the sector as well as Greenfield investments.

To the extent that the introduction of the import duty does not affect the appetite to import machinery and equipment (especially that Zambia does not manufacture such equipment), the measure should result in an increase in tax revenues.

Currently, most mining equipment critical to the sector is imported duty free and VAT deferred. The removal of VAT on imports of this critical equipment would not result in any benefit to the sector as the equipment did not attract VAT. We would therefore recommend that the sector be engaged by the ministry of Finance in arriving at the equipment that must be subjected to the 10% duty in order not to stifle investment in the sector.

b) Reduction of capital allowances

This measure is expected to reduce the amount of capital allowances claimable annually and extend the duration for claiming capital expenditure from 4 years to 5 years.

c) Pricing of base and precious metals between related parties

The proposed amendments include:

Provide for price premium adjustments to be made to the reference price. In our understanding these premiums may be attributable to certain economically relevant characteristics;

Empower the Commissioner-General to issue specific guidelines on pricing of minerals.

Use a price that is higher than the reference price in cases where a Zambia resident person or non-resident person has entered into a transaction with a third party in which the agreed price is higher than the reference price and the sale does not involve further milling, blending, treatment, refinement or transformation.

Extend the use of the reference pricing to adjust the pricing of purchases between related parties; and

Empower the Commissioner-General to request a resident or non-resident person to provide, upon request third party Sales Agreements and third party invoices relating to the sale of the base or precious metals.

The objective of this measure is to ensure that premium adjustments are captured and that the Commissioner-General can also issue specific guidance on pricing of base metals and precious metals where appropriate and provide guidelines on determining discounts.

Under current provisions the pricing of the sale of base or precious metals between related parties is the "reference price". The reference price is defined to include quoted prices for the minerals (e.g. quoted price on the London Metal Exchange, in the London Metal Bulletin, etc.). This is known as the Sixth Transfer Pricing method.

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	FELLOWS	
	JANUARY 2019 ADMISSIONS	
NO.	NAME	MEMB. NO.
1	Natala Phannel Mweetwa	F007020
2	Silwimba Chrispin W	F005970
3	Amos Hanyama Chilambe	F006616
4	Foster Emmanuel Chalimbana	F006075
5	Joseph Chilongo	F004582
6	Cecil Mutinta	F003724
7	Pamela Chishimba	F003716
8	Nyirongo Kizito	F001979
9	Chisha Kaela Chishimba	F005333
10	Chilombo Shinga Mweetwa	F003729
11	Shame Weza	F001275
12	Musonda Chisanga	F005056
13	Chongo Chileshe	F007025
14	Munkonge Charles Luo	F004280
15	Musonda Martin	F007964
16	Lupupa Mwila	F007966
17	Kwezekani Zulu	F007968
18	Kaluba Kangwa	F007969
19	Lovemore Chakatala	F007972
20	Bwalya Silwizya	F007974
21	Ceasar Katuka Matiya	F007971

22	Richard Denis Andrews	F007973
23	Isiah Zimba	F007975
	FEBRUARY 2019 ADMISSIONS	
NO.	NAME	MEMB. NO.
1	Elaine Joanne Henning	F003922
2	Lillian Mwababa Mungulube	F005297
3	Simon Njovu	F005182
4	Mwila Chipampata	F005613
5	Bezariel Daka	F006153
6	Malumbe Rochester	F006706
7	Mwenya Chileshe	F008075
8	Thulile Lwizya Kavimba	F008077
9	Cynthia Nachalwe Kampamba	F008078
10	Mwila Paul Robertson Mulula	F004189
11	Mumba Mwiinga	F001898
12	Chisunkumya Yumba Namumba	F002602
13	Mwaka Kabwe	F002601
14	Daliso Daka	F003370
15	Mumba Davis	F003752
16	Mwewa Beauty Chibuye	F003861
17	Ikayi Kachimba	F004304
18	Chipepo Pascal Simumba	F004272
19	Charles Mafumo	F002347
20	Mainza Hatuma	F003733
21	Zimba Suzyo	F004658
22	Muchindu Mumbe	F005665
	MARCH 2019 ADMISSIONS	
NO.	NAME	MEMB. NO.
1	Petronella Kabwe Kasoma Chilwesa	F006539
2	Mumbo Lombe	F003033
3	Fitzpatrick K Kapepe	F004321
4	Lubasi Lubasi	F003717
5	Christor Kayombo	F001227
6	Peter Sinkala	F001370
7	Fridah Phiri Nyirenda	F002990
8	Vincent Bwato	F002517
9	Chinyanta Annabel Katapa	F005394
10	Mundia Lilian	F007809
11	Gibson Mbewe	F006715
12	Francis Chibela Chisenga	F006241
13	Gift Mubanga	F006719
14	Caroline Banda	F006453

15	Miselo Musefwe	F008074
16	Diana Libingi	F008157
17	Mawalera Tembo	F008156
18	Chibeza Mbulo	F008155
19	Chitemwa Ngambi Kapaya	F007634
20	Felistus Chisanga	F007799
21	Isabel Willima	F003019
22	Pumulo Sikopo Simeza	F001051
	APRIL 2019 ADMISSIONS	
NO.	NAME	MEMB. NO.
1	Mwale Robert	F003663
2	Gabriel Stephen Chipeta	F006240
3	Sammy Habwankuta Michelo	F007015
4	Maibiba Mulala	F005903
5	Banda Nkabwela	F008260
6	Devarati Mitra	F008259
7	Alice Manase	F006692
8	David Mark Johnston	F008377
9	Sadiku Abdulrahaman Omeiza	F008374
10	Tarryn Foster	F008255
11	Tina Nyasha Jaricha	F008358
12	Deborah Elizabeth Barker	F008359
13	Amanda Louise Donald	F008360
14	Paul Atkinson	F008362
15	Timothy Courts Rutherford	F008363
	MAY 2019 ADMISSIONS	
NO.	NAME	MEM No.
1	Bwalya Moses Kangwa	F004040
2	Lastone Kaponda	F004894
3	Joseph Kandani Bwalya	F004881
4	Kajoba Beston	F003756
5	Benny Mulenga	F008386
6	Victor Mwanza	F008385
7	Kaunda Kasalwe	F008384
8	Choolwe Nseluka	F008383
9	Charlene Anita Kunda	F008382
10	Mutamba Bwalya	F002069
	JUNE 2019 ADMISSIONS	
NO.	NAME	MEM No.
1	Jane Monde Limbali	F005407
2	Shadreck Zyambo	F005410
3	Kakungu H Mvula	F008389

4	Beatrice Seulu	F008390
5	Mack Makokwa Mwala	F006620
6	Brian Chomba Chimpinde	F006322
7	Nicholas Mulemena	F003532
	JULY 2019 ADMISSIONS	
NO.	NAME	MEM No.
1	Bright Jere	F004653
2	Mubitelela Sileu	F004908
3	Chitama Chimara	F004917
4	Lazaro Mukuka	F005285
5	Chilongu Kelvin	F007912
6	Khonje Simon	F002850
7	Sitemba Chinene Mwitangeti	F008479
8	Natasha Kamaloni	F008478
9	Baron Banda	F008477
10	Rhoda Banda Malembeka	F008476
	AUGUST 2019 ADMISSIONS	
NO.	NAME	MEM No.
1	Mukaya Given Simubali	F003721
2	Choolwe Himoonga	F007142
3	Pangu Chumba	F006845
4	Kafunga Chumba	F006844
5	Ndala Luke Kakinga	F006538
6	Mweemba Muungo	F004630
7	Moses Silanda	F007795
8	Wilton Mwase	F008524
9	Edmore Gunzvenzve	F008523
10	Fayson Munkombwe	F008522
11	Ireen Kabula Musonda	F008521
12	Codillia Sibungu	F008546
13	Sarah Seruwooza	F008531
14	Regina Namayanja	F008526
15	Walapwa Sarah	F008528
	SEPTEMBER 2019 ADMISSIONS	
NO.	NAME	MEM No.
1	Phiri Elisha	F008611
2	Rodgers Chileya Musenge	F008612
3	Bornwell Mpofu	F008613
4	Micheal Chilufya Mulenga	F002861
5	Collins Katungu	F001933
6	Patrick A N Musokwa	F001153

PRUDENTIAL LIFE PLAN FOR ZICA MEMBERS

As you may be aware, in line with our values as a Customer Centric and as a caring Institute, ZICA engaged the Insurance market for a credible provider of Life Insurance so as to continue to drive the agenda of providing enhanced benefits to you our esteemed member and hence the reason why we launched the Life Plan for ZICA members supported by Prudential. It is our view that this great partnership between ZICA and Prudential Zambia will bring to fruition the desired objective of ZiCA to provide the needed support to members and their families during times of difficulties occasioned by the death or the disability of a member of the Institute.

SUMMARY BENEFITS

1. Lump sum benefit of K50,000 upon death of a member during the term of the policy. The benefit payable in two parts K10,000 upfront to cover funeral expenses upon notification and K40,000 family benefit on submission of full claim documentation
2. K40,000 payable in the case of total or permanent disability
3. Hospital cash benefit due to an injury or illness, results in admission in hospital for more than 2 days. K300 per day up to 10 days per policy per year

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PRUDENTIAL

Dear Valued Client,

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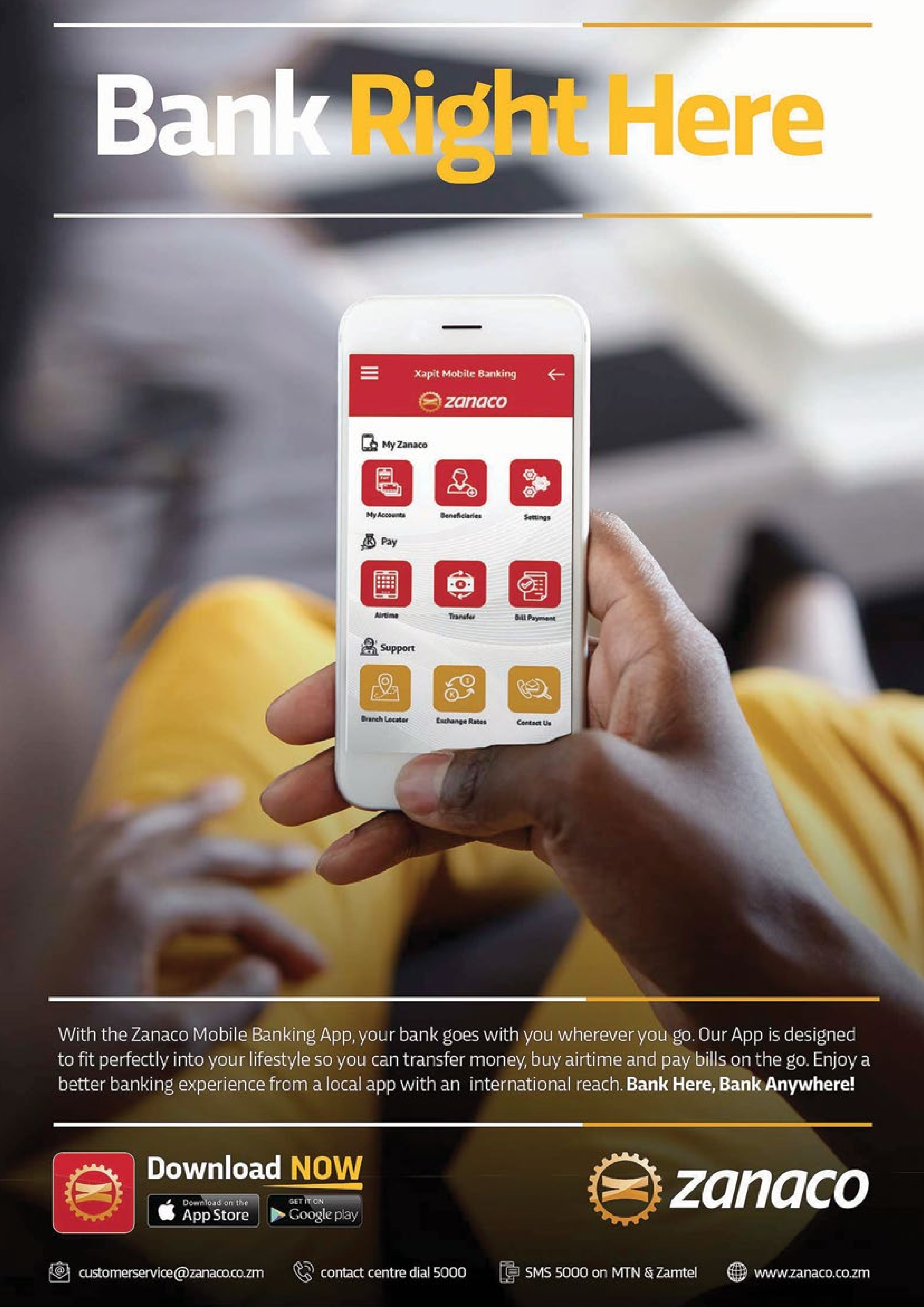

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