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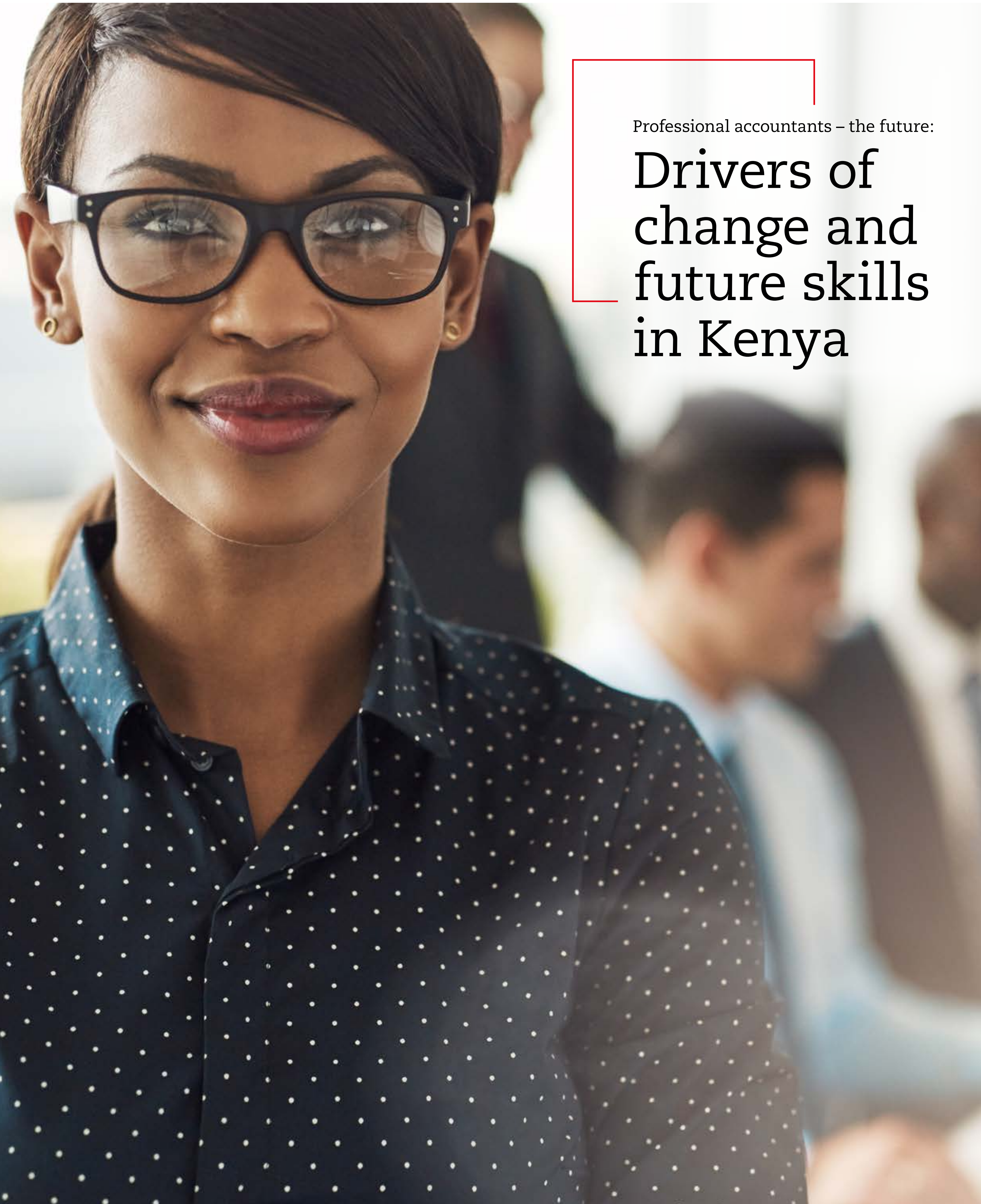

Professional accountants – the future:

# Drivers of change and future skills in Kenya

# About ACCA

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

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

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

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

**More information is here: www.accaglobal.com**

# About ICPAK

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of Kenya (ICPAK) is a statutory body of Accountants established under by the Accountants Acts of 1978, and as repealed under the Accountants Act Number 15 of 2008, mandated to develop and regulate the Accountancy Profession in Kenya.**

ICPAK is a member of the International Federation of Accountants (IFAC), the umbrella body for the global accountancy profession and a member of the Pan African Federation of Accountants (PAFA). ICPAK has transformed itself as the leading professional body of accountants in the East and Central Africa Region. Currently, it regulates a body of close to **21,000** professional accountants spread over the world.

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

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

**For more information, please visit www.icpak.com/**

*The joint research with ACCA is an effort to realize the aspirations under the third and fourth pillars by assessing the qualities necessary to make the accountants in Kenya to meet the demands of the dynamic market place.*

# Drivers of change and future skills in Kenya

## About this report

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

Other reports on the future of the accountancy profession include ACCA 2012a, ACCA 2012b, ACCA 2016a.[1]

1 See also the ACCA website at www.accaglobal.com

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# Executive Summary

**Kenya has the largest economy in East Africa, and the accountancy profession in Kenya has played a key role in supporting the country's economic growth.**

Yet Kenya is held back by a failure to exploit fully the skills and experience of its professional accountants. Specifically, the quality of financial management within central government, the counties and state corporations would be strengthened by greater use of professional accountants. Too often, Kenya's public and private sectors are failing to take advantage of the core competencies of professional accountants: these include effective financial management, reporting and planning; effective use of resources; revenue generation; data analysis; and high standards of corporate governance.

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

Weak corporate governance sits behind many of the failures in financial reporting, which have seen some of Kenya's largest companies (such as Uchumi Supermarket (Mukabwa 2016) and CMC Holdings (Business Daily Africa 2018)) experience financial difficulty, including, in some cases, bankruptcy. A contributing factor in this corporate governance crisis has been the use of poorly skilled bookkeepers and unqualified 'accountants' in roles that should be reserved for professional accountants, qualified through a rigorous training and examination process and membership of a reputable accountancy body, such as ICPAK and ACCA. That some bookkeepers call themselves 'accountants' has brought the accountancy profession into disrepute. Kenya's corporations (and government) must ensure that they have effective risk-management and decision-making systems. Qualified, regulated, accountants need to be at the heart of these organisations to prevent wrongdoing and ensure transparent and accurate financial reporting.

Professional accountants must ensure that they update their skills to deal with these challenges at a personal level and by participating in and attending seminars, meetings and workshops where they are able to earn relevant continuous professional development points. They need to be able to strengthen their organisations' corporate governance. They must also be fully equipped to deal with the rapidly changing environment in which they operate. The automation of many traditional accountancy tasks means that the role of the accountant is evolving. There is now a much greater need for accountants to have 'softer' skills, such as being able to communicate the requirement for organisational change and produce narrative context as part of financial reports. Those reports need to consider the need for resource sustainability, as well as financial sustainability, and deal with the concerns of a wide range of stakeholders. Sustainability needs to be considered in a broad sense, in terms of not just financial resources, but also intellectual, natural and human resources, for example. There is an increasing demand for integrated reports, which bring together these elements.

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

Accountants must equip themselves with the knowledge and skills to address the latest business challenges, such as cybersecurity. Accountants need to use social media; be proficient in e-procurement; and develop expertise related to new business models and finance raising, including dealing with cryptocurrencies, crowdfunding, Islamic finance and the greater use of asset financing. Kenya needs to make more effective use of data; accountants in Kenya must ensure they have the skills to assist with sophisticated data analysis.

Kenya needs its accountants, through professional bodies such as ICPAK and ACCA, to participate in policy development that will strengthen the state's fiscal position and its economy. Accountants need to sit close to the heart of government, helping with revenue raising, resource allocation and financial management. They need to assist government with strengthening planning for handling natural disasters, a recurring risk for Kenya. But for the profession to play its proper role, it is also important that the title of 'accountant' is properly regulated and controlled, with backing from state financial regulators such as Kenya's Capital Markets Authority.

## ACCOUNTANCY IN KENYA – THE KEY CONSIDERATIONS

The global economic and business landscape is changing at a speed and with an intensity that seem unprecedented. Factors reshaping the world include climate change, resource scarcity, geopolitical conflict, slowing growth in China, unpredictable emerging markets, increasing life expectancy, widening inequalities, huge shifts in corporate and political power and the increasing pace of digital innovation – to name but a few. The complexity, variety and interconnectedness of the underlying factors make it impossible to anticipate exactly how these trends will evolve. If professional accountants are to thrive and add value in the future, they will need to develop the skills and competencies that economies and organisations demand. Those in and around the accountancy profession must plan for the expected, the unexpected, the predictable and the unpredictable.

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

The particular challenges facing Kenya include: the threat of political instability; a rapidly changing demography; the quality of public sector administration; fluctuations in government revenues; a high propensity to natural disasters and high levels of unemployment (ACCA 2017a).

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

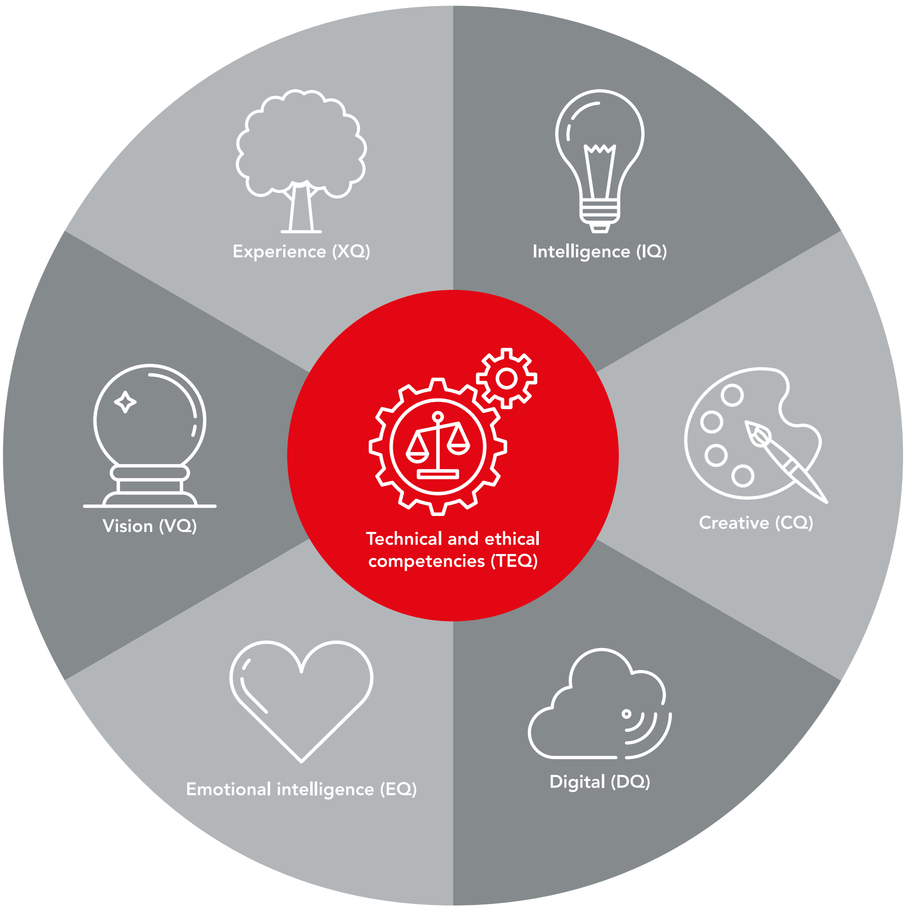
> Technical expertise and ethics are, and will remain, vital; over the next decade some types of technical knowledge and some skills will increase in value, others will decrease, and new knowledge and skills will be required.

## PROFESSIONAL QUOTIENTS (PQs)

ACCA's analysis suggests that to add value for their employers and clients, the professional accountants of the future will need an optimal but nonetheless changing combination of professional competencies: a collection of technical knowledge, skills and abilities, combined with interpersonal behaviours and qualities. By 2020, all professional accountants will need to develop and balance the components of the necessary professional quotients to fit their role and stage of career. The professional accountants of the future will need to develop and demonstrate the ability to combine their technical knowledge, skills and abilities with softer skills concerned with the above-mentioned interpersonal behaviours and qualities. Each accountant's professional quotients (PQ) will reflect their competency and skill across seven constituent areas. Technical skills and ethics (TEQ) and experience (XQ) will be combined with intelligence (IQ) and digital awareness (DQ); interpersonal behaviours, skills and qualities will be reflected in quotients for creativity (CQ), emotional intelligence (EQ) and vision (VQ). Just as individual IQ scores can be raised (sometimes significantly) by appropriate teaching, experience, training and development, so too can TEQ, CQ, EQ, VQ and XQ.

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

**FIGURE 1:** Professional quotients for success



# 1. Drivers of change

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

## 1.1 SHORT-TERM DRIVERS OF CHANGE

**TABLE 1.1:** Which factors might have the largest impact on professional accountants and finance professionals in the short term?

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

### 1.1.1 The potential strengthening and increased complexity of regulation and corporate governance

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

Kenya is under pressure to sign up to the highest standards of corporate governance and financial reporting (Biko 2018). Weak corporate governance is often the platform for misleading, or even fraudulent, financial reporting. Kenya's Capital Markets Authority and ICPAK have raised serious concerns about the quality of financial reporting by some listed companies. 'Fraudulent accounting is a national disaster in Kenya just as corruption has been declared and we need the input of every stakeholder including the police, the National Intelligence Service and the Ethics and Anti-Corruption Commission to curb the vice', said ICPAK chief executive Patrick Ngumi in 2015 (Ngugi 2015). Examples of bad corporate governance have led to

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

serious crises in major Kenyan companies, including Imperial Bank (Amadala 2017), Mumias Sugar (Daily Nation 2015), Kenya Airways and Uchumi Supermarkets (Mukabwa 2016).

The African Corporate Governance Network (ACGN) has recommended improvements to corporate governance across the continent. It complained that African companies often lack understanding of the basic concept of corporate governance; lack transparency and accountability; suffer from a high level of corruption at board and managerial level; are subject to out-dated laws; have poor or non-existent relationships between the board and stakeholders; publish misleading financial statements; and have poor internal controls and a lack of risk management (Mukabwa 2016).

ICPAK and ACCA have been in the forefront of improving and strengthening corporate governance in Kenya over a long period. The Kenyan Capital Markets Authority introduced a stringent corporate governance code with effect from March 2017, which applies to all companies listed on the Nairobi stock exchange. Some parts of the code are mandatory and others operate on an 'apply or explain' basis (Capital Markets Authority). Parastatal companies must conform to a less rigorous Mwongozo corporate governance code, which uses the 'apply or explain' principle (Mukabwa 2016; PSC and SCAC 2015).

### 1.1.2 Changes to the global economic and regulatory infrastructure in direct response to the global financial crisis

Factors in the global financial crisis of 2008 included weak global and national regulation as well as failings in the independence and effectiveness of credit ratings agencies. Since then there has been greater diligence by the agencies and a closer focus on sovereign debt. Moody's downgraded the Kenyan government from B1 to B2 in February 2018, driven by 'an erosion of fiscal metrics and rising liquidity risks' (Moody's 2018). Moody's concluded that the government's financial strength, including its debt profile, had weakened, predicting a rise in government debt and deterioration in debt affordability. Moody's forecast government debt to increase to 61% of GDP in 2018/19, from 56% in 2016/17 and 41% in 2011/12. Interest payments rose as a share of revenue from 13.7% in 2012/13 to 19% in 2017/18. Fiscal and financial management reforms planned by Kenya's government were insufficient, leaving Kenya with a 'low level of economic resilience', added Moody's (2018). ICPAK has argued that government borrowings should be used only to finance development expenditure, warning that public debt is increasing too rapidly (Mwenda 2015).

Kenya has East Africa's largest and strongest economy (Gundan 2014; Otuki 2017), which is also the fourth largest in Sub-Saharan Africa (behind South Africa, Nigeria and Angola), and the ninth largest in Africa. Despite this, Kenya has serious economic challenges. Gross domestic product (GDP) grew by 4.7% in 2017 (Moody's 2018), below the Treasury's target of 5.9% (Citi Research, 2017), after growth of more than 5.5% in 2016 and 2015 (Lyons 2017). According to the International Monetary Fund (IMF), growth has been supported by public sector infrastructure investment, favourable weather (which has assisted agriculture) and improved tourism spend (IMF 2017).

Kenya needs to maintain a high level of economic growth to enable the government to deal with severe social pressures. Kenya has a youth unemployment rate of 35%, compared with a general unemployment rate of 10%, and an extra 800,000 young Kenyans enter the labour market every year. Some 80% of unemployed Kenyans are under 35 (UHY International 2017). A large proportion of Kenyans live in extreme poverty (ICPAK 2016: 4).

Kenya's economy is orientated to small businesses, with nearly 80% of the country's total workforce employed by SMEs, which contribute just 20% of the nation's GDP (UHY International 2017). A participant at an ACCA roundtable commented: 'Most SMEs cannot afford the services of an accountant'. Many companies struggle with financial management, while dealing with a higher interest rate on loans – capped by the

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

government at 4% over base rate – than found in many competitor nations. There is evidence that because of the cap, the availability of commercial loans has declined, stifling economic growth (Lyons 2017, World Bank 2017a).

### 1.1.3 Public perception of the value of the accountancy profession and its attractiveness to future accountants

Kenya suffers from a global and domestic perception of being victim to bribery and corruption, which inflicts damage on the public sector and government, as well as business. Kenya was ranked 143 out of 180 countries in the Transparency International Corruption Perceptions Index for 2017 (Transparency International 2018). There are specific and substantial problems related to illicit financial flows from Kenya. 'Issues of illicit flows are a big concern, not just for Kenya but for Africa', said a participant in ACCA's public sector roundtable. 'This can affect both commercial and corporate transactions, particularly in the extractive industry'. It is claimed that Sub-Saharan African countries effectively subsidised developed economies by $41.3bn in 2015, through illicit financial flows out of the region (Global Justice Now et al. 2017). Police investigations have taken place in the UK and Israel in relation to allegations that Kenyan officials were bribed when awarding major public contracts (Ngugi 2018). These factors point to the need for stronger regulation and corporate governance, backed by greater transparency within government, and for professional accountants to play a central role in achieving this.

The risk is that the entire accountancy profession, which is backed by rigorous qualification and discipline, is undermined by the perception of a lack of integrity in parts of financial management. 'Integrity of the accountants is questionable in the eye of the public', said a roundtable participant. The International Federation of Accountants (IFAC) has argued that accountants must take a lead in tackling corruption around the world. (IFAC).
But there is a serious problem that poorly skilled book-keepers, or unqualified accountants, are undertaking roles that should be the preserve of qualified accountants, with relevant skills and ethics, and who are accountable for any misconduct to their professional body. As a roundtable participant explained: "Functions that need to be performed by accountants should be a preserve of qualified, regulated and practicing accountants."

### 1.1.4 Cybersecurity challenges

Kenya has the highest incidence of cybercrime in East Africa, with legitimate businesses, individuals and government suffering a collective loss of $171m in 2016 (Obura 2017). The incidence of cybercrime in Kenya is rising fast, alongside the rapidly widening availability of internet provision and increase in the use of mobile phone and mobile payment technologies. 'Cyber criminality follows broadband and internet penetration', explained Samresh Ramjith, EY Kenya's cybersecurity leader. 'As we become more [active] online, these risks and threats start manifesting themselves' (Munda 2017).

Kenya's government has moved forward quickly in extending internet provision, especially in Nairobi. This fast pace of progress is important for the country's economy, but creates threats if cybersecurity knowledge and protection do not keep up. 'One of the clearest statistics is that this market isn't slowing down from a cybercrime perspective', said Ramjith. 'This is growing year-on-year by close to double-digit [rates]' (Munda 2017).
A recent review of cybercrime in Kenya explained: 'The cyber threats Kenya faces range from basic hacking such as website defacements, financial fraud, social media account hijacking; theft of government documents and cyber espionage' (Kamau 2017). The author warned that the frequency of these incidents is increasing, as is the sophistication of the methods used. Consequently, Kenya – in particular, its banks, other financial services providers and government – has been specifically targeted by advanced persistent threats (APTs).

One of the biggest risks is to the security of mobile network operators, which provide the backbone of mobile money systems. These are widely used for

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

remittances from overseas, Kenya's main sources of foreign exchange ($1.5bn in the year ending June 2015) (UHY International 2017). The country has been an early adopter of mobile money, with more than 23 million Kenyans using it by 2013. Mobile financial services were by then employing at least a hundred thousand people in the country (Rockefeller Foundation 2013: 10–11). 'The proliferation of connectivity through affordable internet has predominantly driven innovation within the technology space and it's no wonder that Kenya is among the leading countries in Africa in terms of cybercrime' (Kamau 2017).

### 1.1.5 Emergence and adoption of new business and production models

Kenyan businesses are increasingly looking at a diverse range of unconventional financing options. 'Kenya and East Africa are the market leaders for crowdfunding and alternative financial models across Africa', explained a report from the Judge Business School (2017), part of the University of Cambridge. 'In 2015, around $22 million was raised in Kenya [through crowdfunding], with an additional $8.5 million raised in Q1 2016.' The market increased by more than 50% year-on-year, with donation-based crowdfunding accounting for two thirds of activity – most probably originating from outside Kenya (Judge Business School et al. 2017). Nonetheless, the World Bank warned: 'In a place like Kenya for example, where grant financing is available from multiple sources, crowdfunding may not be the most efficient way to raise capital' (InfoDev/World Bank Group 2015). There is a lack of specific controlling regulation for crowdfunding in Kenya (Judge Business School et al. 2017), though it is subject to more general legislation under money laundering controls.

There is an emerging cryptocurrency community in Kenya (Giles 2018; Business Today 2018). By early 2018, two Kenyan companies (Nurucoin and UwezuCoin) had announced launches of initial coin offerings (ICOs). (ACCA examined the issues and risks associated with ICOs in a recent report (ACCA 2018b).) Kenya's Capital Markets Authority is supportive of cryptocurrencies, while warning of the risks involved from fraud in their trading (Lielacher 2018). There are concerns about the stability of Bitcoin and other digital currencies, with some central banks (such as the Bank of England) and other regulators (including the European Commission) considering new controls and regulations.

Kenya has been posited as a potential African centre for the issuing of Sukuk bonds and other types of Islamic finance (Abdulkadir 2017). (About 11% of the Kenyan population, 4.3 million people, are Muslim.) The influence of Islamic finance is growing. Islamic financial institutions operate in more than 75 countries and their assets are expected to reach US$3.7 trillion by 2019 (Hasan 2015).

### 1.1.6 Social media and its role in business

'Kenya has been found to be one of the leading countries regarding social media usage in East Africa' (Jänitti 2015). According to the Communication Authorities of Kenya, there is now 90% internet penetration in Kenya, while smartphone adoption is 44%. Despite this, use of social media remains low, perhaps because of low internet capacity away from Nairobi. 'Facebook Audience insights estimate that 4.3 to 5.1 million users visit the platform monthly and 85 percent are located in Nairobi. Mombasa accounts for 3 percent of users, Eldoret and Nakuru account for 0.9 percent each, and Kisumu occupies the 5th position with the user base of 0.6 percent', according to Noah Miller, managing director of Sochin, a communications and data analytics consultancy in Kenya (Fred 2017). There is similar distribution with other social media platforms.

'Many Kenyan companies do not fully grasp the power of social media, how it works, how it fits into their business and the impact it can make', notes Miller (Fred 2017). Typically (and this is a global issue) accountants tend to focus on the opportunities presented by social media to win clients, for example through the use of LinkedIn, Facebook, Twitter and YouTube (Alter 2013). The challenge for accountants in practice is how to use social media in ways that add value for existing and new clients, and for their

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

employers by those employed in organisations in the private and public sectors. 'Social media sites also play a valuable role in helping accounting practices share and acquire knowledge, establish their credentials and extend and maintain their professional network', explains Wolters Kluwer in its commentary on a survey of how accountants use social media (Wolters Kluwer Tax and Accounting 2014).

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

## 1.2. MEDIUM TERM DRIVERS OF CHANGE

**TABLE 1.2:** Which factors might have the largest impact on professional accountants and finance professionals in the medium term?

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

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

### 1.2.1 The development of intelligent automated accounting systems

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

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

A software company based in Germany is going further by using AI to provide a more automated and integrated accounting and financial reporting system for small firms, with receipts converted into machine-readable form and automatically allocated to the correct records system. Through machine learning, the system automatically improves its accuracy, including for invoice management (Najjar 2018).

### 1.2.2 Adoption of cloud computing by business

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

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

One risk with cloud accounting is the prospect of industry consolidation, which could lead to a lack of choice of provider and the possibility of an abrupt end of supply arrangements if a provider ceases trading. These risks need to be managed. Forrester, the research and advisory consultancy, has predicted that Amazon, Google and Microsoft will increasingly dominate the cloud platform market, and together, it suggests, they will capture 76% of cloud platform revenue in 2018, rising to 80% by 2020 (Columbus 2017). It is possible that owners of cloud platforms will seek to dominate provision of cloud-based services, such as cloud accounting.

### 1.2.3 Broadening measurement and expectations of business value and demands of external stakeholders beyond purely financial indicators, including licence to do business

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

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

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

An ACCA report explains: 'Over the last two decades the number of organisations working to address their sustainability impacts has increased significantly. This increase can be attributed to a number of factors, including a broader understanding and acceptance of the links between economic activity and global sustainability issues; a recognition of the risk-management and economic benefits that organisations can gain from integrating sustainability into their strategies; and a growing demand from stakeholders, including investors, customers, employees and NGOs, for organisations to manage their operations in a more sustainable manner. A minority of governments and regulators have also driven this trend by requiring companies, especially listed companies, to address their environmental and social impacts and to report on their practices' (ACCA 2014).

Moves towards integrated reporting <IR> are an increasingly accepted approach to bringing together the various concerns about organisational sustainability and environmental and social reporting – which themselves can have substantial financial implications for a business. 'The primary purpose of an integrated report is to explain to providers of financial capital how an organisation creates value over time. An integrated report benefits all stakeholders interested in a company's ability to create value, including employees, customers, suppliers, business partners, local communities, legislators, regulators and policymakers, although it is not directly aimed at all stakeholders' (ACCA 2018a).

Some types of business – for example, mining – may find their ability to win licences curtailed if they do not conform to best practice on sustainability and social justice. Veolia has had water and electricity supply contracts cancelled by the government of Gabon after being accused of environmental damage (News24 2018) (Veolia denies the allegations). Challenges to Exxon over disclosures on the valuation of oil reserves in the context of the potential impact of climate change demonstrate the connectivity of environmental and financial sustainability issues (Fortune and Reuters 2017).

Agricultural sustainability in Kenya has been threatened by both droughts and flash flooding, which are often attributed to global climate change (Bosire 2017). Kenya is suffering other severe impacts from climate change, including the drying up of the world's largest desert lake, Lake Turkana. As the water evaporates and the lake shrinks, so its salinity rises and threatens the survival of fresh water fish – an important food source for the local population (Moran 2014; Down to Earth 2017).

### 1.2.4 The different aspirations and expectations of the next generations

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

ACCA's study, *Professional Accountants – the Future: Generation Next* (ACCA 2016b), reports the results of a large global survey of younger accountants and other finance professionals, aged 16 to 36. It explains: 'This survey suggests Millennials in the accountancy profession are well equipped to deal with change driven by technology and globalisation. They have a global outlook, often expecting to work in another country in their next role or at some time in their careers. They are technologically savvy and technology holds little fear for them. Work-life balance and a variety of experiences are important to them and they will switch jobs quickly to attain what they want from their careers.'

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

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

### 1.2.5 Data mining and new analytical methodologies as a result of Big Data

There are strong demands on Kenya to use data more effectively, in order to ensure that aid is distributed efficiently and for use in evidence-based political decision-making. Allegations of the use of data to influence elections in Kenya illustrate both the opportunities and dangers of Big Data (King 2018).

Alex O. Awiti, director of the East Africa Institute at Aga Khan University, questions why African nations are behind other countries in human development, suggesting that more effective use of Big Data creates opportunities for catching up. 'The unique combination of Big Data, the associated analytic and design thinking, offer new ways to think about and solve big problems in areas such as health, education, agriculture and urbanisation. Furthermore, the eruption of social media is also opening novel ways that enable a human-centred approach to policymaking' (Awiti 2018).

'Big data and design thinking allow us to arrive more efficiently at verifiable problem diagnosis. Big data and design thinking provide a basis for defining and coordinating stakeholder engagement. More importantly, Big Data and design thinking provide leverage for experimentation and rapid prototyping and testing policy solutions before full-scale implementation. One of the biggest failures of current policy framing is the naive belief that there is a linear path between policy objectives and policy outcomes. The challenges we seek to address through policy are inherently wicked [*sic*]. Big data and design thinking will enable the policy community to grapple with complexity and uncertainty throughout the policy cycle' (Awiti 2018).

### 1.2.6 New enterprise risks, including resource scarcity, increased market volatility and 'black swan' events

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

Energy policy is a particular challenge for Kenya. There are promising signs of an expansion in the use of alternative energy sources by business, encouraged by Kenya's narrow dependency on hydroelectricity, the largest domestic source of electricity (Energypedia 2018). This dependence creates acute difficulties during periods of drought, leading to reliance on energy importation and serious risks to Kenya's economy, social tension and relationships with neighbouring governments (ESI Africa). Building alternative energy sources and strengthening distribution systems are essential. 'Kenya has identified energy as one of the critical foundations and enablers of a socioeconomic transformation envisioned for the country' (Climate Investment Funds n.d.). Key barriers inhibiting the expansion of Kenya's renewable energy sector include economic and financial limitations, insufficient technical and human capacity, and social constraints.

Attempts at strengthening Kenya's energy independence create new risks. Kenya is seeking to develop its first nuclear power plant (ESI Africa 2015) by between 2022 and 2027 (Cannon 2017) , but some nuclear energy programmes around the world have hit serious problems, leading to occasional moratoriums on the use of nuclear power. Oil reserves found in the Lake Turkana region mean that Kenya may become self-sufficient in oil production, assisting with its economy, but potentially damaging both the global climate and local environmental conditions. The marine environment and the local weather system are also threatened by plans for new coal-fired electricity generation (Rosen 2017).

Kenya has an unhealthy economic dependence on Europe, which makes the country vulnerable to that continent's economic problems. An article by Wolfgang Fengler, published by the World Bank, explains: 'Kenya has a structural weakness in exports, especially in manufacturing, which is mainly due to infrastructure constraints, notably the poor performance of the port of Mombasa.

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

This weakness could hurt Kenya during times of global crisis because it still depends too much on traditional exports such as the 'big three': tea, tourism and horticulture. Together they make up more than a third of Kenya's total exports, and generate around US$3bn in foreign exchange. They are also an important source of employment. But while Kenya has started to look east to sell its products, it still depends on the North to a large extent. About a third of Kenya's exports are sold in Europe' (Fengler 2012).

## 1.3 LONG-TERM DRIVERS OF CHANGE

**TABLE 1.3:** Which factors might have the largest impact on professional accountants and finance professionals in the long term?

| RANK | DRIVER OF CHANGE |
|---|---|
| 1 | Changing societal expectations and the evolving scope and nature of what is considered accountancy and the role of the accountant |
| 2 | Changes in the direction for global governance and roles and influence of emerging global powers, regional and global institutions |
| 3 | Use of cash for financial transactions versus a cashless society |
| 4 | Advances in brain science; eg augmentation of people's mental capacity and memory, direct computer interfaces with the brain |
| 5 | The use of carbon taxes, cap-and-trade policies and other environmental market mechanisms to encourage more environmentally sound behaviour |
| 6 | Changes in the global reserve currency from the US dollar to a different currency |

### 1.3.1 Changing societal expectations and the evolving scope and nature of what is considered accountancy and the role of the accountant

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

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

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

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

### 1.3.2 Changes in the direction of global governance and roles and influence of emerging global powers, regional and global institutions

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

Meanwhile, central governments have suffered from declining corporate tax revenues – just at the time when some of them had to deal with the costs of dealing with banking failures. This led the Organisation for Economic Co-operation and Development (OECD) to develop means of combating base erosion and profit shifting (BEPS). While the OECD is not formally a body of global governance, through the backing of the G20 most major jurisdictions have now signed up to the BEPS action 15 multilateral instrument under the OECD's inclusive framework.

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

### 1.3.3 Use of cash for financial transactions, versus a cashless society

Kenya leads the world in the use of mobile money. M-Pesa is a mobile wallet system that enables money transfers between wallets and has a mass subscription base, with more than half of Kenyan adults belonging to it. 'The system was launched by Vodafone's Safaricom mobile operator in 2007 as a simple method of texting small payments between users. Today there are 30 million users in 10 countries and a range of services including international transfers, loans, and health provision. The system processed around 6 billion transactions in 2016 at a peak rate of 529 per second' (Monks 2017). According to *The Guardian*, while there are 28 million phone lines registered for M-Pesa, there are more than 36 million accounts registered with the provider (Flood 2017).

M-Pesa can be used to apply for loans, which can be transferred over the system. But many people operating in the informal economy continue to be paid in cash. M-Pesa is not universally popular, as it can be slow and clumsy to use. Nonetheless, it is likely to become more heavily used, including as a method for transferring international remittances (Okkutah 2016).

It is perhaps too soon to predict the future development of cryptocurrencies. Bitcoin, in particular, has proved popular as a speculative investment and for some types of transaction, including some illegal activities. The Central Bank of Kenya has warned about investing in Bitcoins for speculative purposes (Alushula 2018). Despite this, there is growing interest in Kenya in cryptocurrencies, with advocates citing two significant advantages: they may protect value against a national currency that is devalued by inflation and they can assist cross-border trade in Africa, which is especially important given the artificiality of many international borders.

### 1.3.4 Advances in brain sciences

Brain sciences offer the opportunity for executives to work with psychology and related disciplines to improve individuals' work capacity, thereby increasing productivity. As we understand more about how the brain works, we increase our ability to adjust the working environment to make the most of individuals' skills and knowledge. Research is also under way into the use of brain implants to strengthen the relationship between human and artificial intelligence (Price 2017).

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

Developments in brain sciences offer opportunities for improving the treatment of many degenerative diseases (Society for Neuroscience 2017). In doing so, they may also extend individuals' capacity to work as they get older. There are a variety of both positive and negative implications to this – risks include increasing wealth inequality and youth unemployment. (If older people work for more years, this may reduce the number of jobs available for younger people.) On the positive side, enabling people to work for more years might reduce poverty among the elderly.

### 1.3.5 The use of carbon taxes, 'cap-and-trade' policies and other environmental market mechanisms to encourage more environmentally sound behaviour

Kenya has less difficulty in meeting carbon emission targets than many richer countries because of its existing dependency on hydro-generated electricity and its commitment to nuclear and renewable energy sources. But there is a tension between Kenya's projected level of economic growth and its energy provision capacity. 'Kenya [has] estimated it will need $40bn over the next 15 years, some of it in the form of foreign aid, to fully implement its climate mitigation and adaptation plans' (Bounagui 2015). Nonetheless, its susceptibility to climate change– through drought and flooding – means that Kenya may need to move beyond existing carbon emission reduction targets to mitigate these effects (Esipisu 2015).

An academic study concluded that in the case of Kenya: 'For sustainable development, several measures including improvements in energy efficiency, switching to renewable sources of energy, stockpiling energy, enforcing air protection and a carbon tax may be urgently required' (Nyangena n.d.).

An ICPAK study on taxation predicted that a carbon emissions tax is likely to be considered by a future Kenyan government. The report referenced global trends towards consumption taxes, including energy taxes. It explained: 'The carbon tax burden would fall most heavily on energy-intensive industries and lower-income households. Policymakers could use the revenue to offset the impact of the gases, invest in clean energy, and climate adaption or for other uses. Carbon emission tax could raise a substantial amount of revenue while still helping in the eradication of global warming' (Waruiru 2017).

Kenya has joined with Japan and Ethiopia in a partnership to develop carbon reduction projects under its Joint Crediting Scheme (Greiner et al. 2016). This could lead to a carbon pricing initiative.

### 1.3.6 Changes in the global reserve currency from the US dollar to a different currency

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

US foreign and trade policy are unusually unstable in 2018, for example with the imposition of new trade tariffs (Donnan 2018). The US has also indicated its concern over currency valuations and trading partners' possible manipulation of currency values to create artificial trade advantages (US Treasury 2018). It is impossible to predict the medium-term and long-term impacts of these policies, but it is not inconceivable that they could lead to the loss of the dollar's position as the pre-eminent global currency and global reserve currency. In this case, the yuan might become 'the' (or 'a') reserve currency. Alternatively, if cryptocurrencies become firmly established, then there might be a decline in the role of traditional 'hard' currencies.

# 2. Future skills

## 2.1 CORPORATE GOVERNANCE AND ETHICS

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

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

Corporate governance tops the list of competency areas where specialist skills will be most important over the next 5 to 10 years in Kenya. Professional accountants apply relevant knowledge, skills and professional judgement when carrying out a range of roles relating to governance, internal control, internal and external audit, compliance and risk management, while abiding by professional and corporate ethical frameworks. Organisational corporate governance involves companies' arrangements for governing boards and management, and their relationships with stakeholders, and provides the structure through which the objectives of the company are set and the means of attaining those objectives and monitoring performance are determined.

IFAC has pointed out that a study by the Centre for Economics and Business Research (IFAC 2017) demonstrates a positive correlation between the number of accountants in a workforce and a country's ranking in Transparency International's global Corruption Perceptions Index (ACCA 2017). Those in and around the accountancy profession must prepare for a future where governance and risk management focus beyond compliance requirements and procedures, and are expected to become more holistic, more dynamic and more integrated than at present. Governance and risk structures, processes and relationships will become more challenging technically, practically and ethically. Professional accountants need globally applicable best practice guidance on corporate governance, risk management and the associated internal and external reporting.

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

## 2.2 TRANSFORMATIVE LEADERSHIP

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

Research by ACCA (2017, Business models of the future) has highlighted an urgent need for those in and around the accountancy profession to assess existing and emerging technologies for their potential impact on business strategy, business models, delivery mechanisms, supply chains and customers – and to take leadership roles in order to plan accordingly. These trends are accompanied by the need for finance professionals to be more outward looking and forward looking.

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

## 2.3 USE OF TECHNOLOGY

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

Accountants need to strengthen their technical skills to be proficient with cloud systems, and to support this with in-depth awareness of cybersecurity and the

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

potential of automation and AI. Professional accountants have a clear and central role in tackling cybercrime, as part of a broader requirement that they understand, and properly use, the latest business technologies. Fayez Choudhury, while IFAC's CEO, said in 2017: 'For accountants to serve their clients, themselves and their employers in the financial arena, that involves technology development: how you collect data, how you process it, how you store it, how you use it. And, if you're an auditor, the whole audit landscape is shifting. Work that we once did to maintain a company's accounts is now highly automated, so you have to move up the value chain and be responsive to those changes' (ACCA 2017b).

Cybersecurity should be a priority concern for accountants. David Reynolds, CEO of the International Association of Accountants Innovation and Technology Consultants, explained: 'The reality is that there's no one explaining IT security to small and medium businesses. [There is a] huge opportunity for accountants to provide new services [to] … engage with clients and have sensible discussions about information security' (Huber 2016).

## 2.4 DATA ANALYTICS

'Data is the foundation of improving accountability and governance', said Kenya's former president Mwai Kibaki in 2011 when he officially launched the Kenya Open Data Initiative (KODI) (Development Initiatives n.d.).

> *'In Kenya the information is there, but is not always made available…as accountants we need to make informed decisions based on data, based on facts and that can be done only if we are able to analyse data properly.'*
> Kenya public sector roundtable participant

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

'In Kenya, both county as well as national governments are key in fighting inequality and poverty reduction, but county governments particularly are experiencing huge gaps in terms of data collection, the open availability of data and analysis for evidenced-based decision-making', according to the Development Initiatives agency. 'Additionally, some non-official actors such as NGOs face difficulties in accessing, analysing and using data to support national and county governments in development work...The production, sharing and use of quality data is widely acknowledged as a key prerequisite to achieving the 2030 Agenda for Sustainable Development and the 17 Sustainable Development Goals to ensure no one is being left behind. Sustained capacity building for citizens, especially at the grass-roots level, is essential to encourage data use for driving improvements in service delivery from government and the private sector' (Odhiambo 2017).

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

## 2.5 CONTRIBUTING TO SUSTAINABLE DEVELOPMENT GOALS

> *'Accountants need to contribute to SDGs through sustainability accounting and reporting.'*
> Roundtable participant

Accountants need to play a central role in the achievement of sustainable development goals (SDGs). Helen Brand, CEO of ACCA, has explained: 'Implementing strategies to deliver the SDGs will engage the accountancy profession at many levels. Driving investment to build the physical and institutional infrastructure that will recalibrate business, finance and

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

government activity around the SDGs will require both the robust technical skills and sound ethical judgement that the accountancy profession around the world is well placed to deliver. From more effective use of data and reporting that meets the evolving demands of finance and wider stakeholders, to designing new business models that take advantage of opportunities that the SDGs present, professional accountants will be central to delivering this critical agenda that will be the new engine of global growth – now and into the future' (ACCA 2017c). Specific challenges for Kenya in its drive to achieve the SDGs include inadequate disaggregated data, high stakeholder expectations and inadequate funding (United Nations 2017).

Understanding corporate needs and different perspectives is vital in supporting the development of useful reporting standards. But – as a joint study between ACCA, KPMG and Fauna & Flora International has concluded – more could still be done by the accountancy profession, including through greater integration of natural capital issues into mainstream decision making, accounting and advisory work and by helping colleagues to improve their understanding of natural capital (ACCA et al. 2015).

ICPAK and ACCA believe that accountants, whether working in business, in public practice or the public sector, have an important role to play in making organisations more accountable in the pursuit of sustainable development. At the international and national levels, it will be necessary to develop new metrics and measurements of progress that look beyond economic output to factor in non-traditional measures such as human well-being and natural capital. Accountants working within both the public and private sectors will need to develop methodologies that address factors such as these, since their effective management is critical to the health of the planet and society, as well as to individual businesses.

The impacts and dependencies, risks and opportunities associated with natural capital are being seen increasingly as potentially material issues that businesses and investors should manage. This has direct relevance for the accountancy profession. Not only can members of the profession play a part in developing common approaches to natural capital accounting, but they can also help to embed its application in business decision making. Such participation is already taking place, and presents a real opportunity for improving performance in managing natural capital. Indeed, the participation of accountants is invaluable because of their professional expertise and their influence within business.

## 2.6 DISASTER MANAGEMENT

Kenya is vulnerable to natural disasters and prone to domestic conflict. There have been repeated droughts and famines, as well floods and mudslides. The natural topography makes the country especially vulnerable to extreme weather – which climate change will exacerbate. About 36% of the population live on the 89% of the land that is arid and semi-arid (Rono 2017). Historically, international aid has played an essential role in dealing with Kenya's natural disasters. In the first half of 2016, international donors committed or contributed $85m of humanitarian assistance (Development Initiatives 2016). An upward revision of Kenya's GDP in 2014 is now beginning to reduce aid flows (CTA 2013).

The abstract of the academic study, 'Profiling Disasters in Kenya and their Causes', explains: 'About 70% of the disasters [in Kenya] are hydro-meteorological in nature, particularly droughts and floods. Other common disasters include road accidents, fire tragedies, collapsing buildings and disease outbreaks. Poverty has been referred to [by] many as the spring board of many disasters in Kenya. Poverty has led to emergence of vices such as corruption, ignorance of law, political manipulation, inadequate resources and destruction of environment which leads to climate change. Culture and beliefs have also been associated with vulnerability to disaster risks. Therefore, to reduce the risks wealth creation will be vital for the country' (Huho et al. 2016).

There is a persistent risk of political or communal violence in Kenya, which might at points reach disaster status. Kenya's

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

current political situation is unstable. Political tensions are made worse by the prevalence of guns in Kenya – a 2012 report estimated the presence of 600,000 small arms in the country (Wepundi et al. 2012). Kenya is also vulnerable to incursions from neighbouring territories and the sea.

## 2.7 DEMONSTRATING VALUE

> *'We need to raise the level of accountants to a strategic level – not just as bookkeepers, but enhancing bargaining power through engaging in socioeconomic and policy issues.'*
> Roundtable participant

> *'Functions that need to be performed by accountants should be a preserve of qualified, regulated and practising accountants'*
> Roundtable participant

It is necessary for professional accountants to demonstrate their value. Kenya's private sector is dominated by small firms, many of which are strapped for cash but employ almost 9 out of 10 of Kenya's workers (African Development Bank Group 2013). Even though the greater use of qualified accountants would improve the quality of financial management in SMEs and assist in them achieving much higher rates of growth, this creates a financial challenge for many SMEs. The ICPAK/ACCA roundtable was clear that accountants' charges and salaries can be a challenge for employers. One participant said: "Most SMEs cannot afford the services of an accountant." Another added: "Employers are cost cutting hence they need individuals who are all-round in terms of integrating various competences."

A survey by ICPAK found that only 16 of 47 county governments employ qualified accountants, with the rest engaging unqualified bookkeepers (Ringa 2017). Auditor-General Edward Ouko indicated that this weakness led directly to poor financial management. 'As a result of lack of financial management skills, most of the counties are facing problems on management of public resources', he said. It also made the role of auditors of public bodies more difficult, as they faced challenges in obtaining the information they needed (Kibet 2017). There is a recognised need to strengthen internal audit systems within state bodies (Sanga 2015; Wanyoro 2017).

ICPAK's former chairman, Fernandes Barasa, has said: 'Our association has 20,000 members who are qualified accountants. Therefore, the counties should employ some of our members to address the rot in financial management' (Ringa 2017). ICPAK has called for the public sector to adopt a new scheme of service that will include an allowance for qualified accountants who forgo the right to practise privately (ICPAK 2013). The government has been unwilling to match the pay that a qualified accountant would earn in private practice. This is despite giving qualified lawyers and medical practitioners an allowance to recompense them for the loss of the earnings they would have received in private practice. In addition, some appointment processes in Kenya have lacked rigour and the use of objective criteria (Kimanthi 2017; Daily Nation 2018).

## 2.8 GENERATING REVENUES

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

Professional accountants play a central role generating revenues in businesses and public bodies. One roundtable participant commented: 'Declining revenues provoke the need for active involvement of accountants in service delivery and economic development initiatives'. This may involve more effective use of data analytics (see section 2.4 above) to reveal opportunities for higher revenues in both the private and public sectors.

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

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

past 6 years, government spending has grown at an average of 14.7 percent, yet revenue growth has only increased by 12.7 percent' (Anzetse Were 2017).

Concern over the stability of the national revenue base is a factor recognised as one of the country's drivers of change in the public sector (ACCA 2017a). Those concerns have grown since, as mentioned above in section 2.6, a change in statistical modelling in 2014 meant that Kenya's GDP was 'rebased' to take it from a low-income to middle-income status. This is leading to aid relationships moving to trade relationships, for example with the Netherlands (CTA).

Government revenues have been inconsistent and appear over-dependent on income tax. The IMF has urged Kenya to cut its fiscal deficit, which was 9.6% of GDP in the 2016/17 year (IMF 2017; Miriri 2017). 'As the country embarks on capital intensive development projects in a bid to achieve the middle income status; there is need to strengthen its capacity to raise revenue', said ICPAK (ICPAK 2016: 19). 'A good fiscal management system ensures that there are stable revenues over time' (ICPAK 2016: 2).

## 2.9 FINANCIAL MANAGEMENT EXPERTISE

Efficient and effective financial planning, financial control and financial decision making are crucial if organisations are to create and protect value and achieve their objectives. Political instability, volatility in currency and commodity markets, growth of emerging markets, constraints on credit availability, rapid changes in technology, and a broadening of business risk exposure are among factors creating a complex and uncertain climate. Also relevant are the 2007–8 global financial crisis, and intensified stakeholder focus on sustainable wealth creation, with a more equitable balance between the pursuit of growth and profit, a firm's long-term sustainability, and appropriate organisational controls. Strong financial management is vital, but increasingly difficult to ensure.

ACCA research suggests that financial management will become more challenging over the years to 2025 (ACCA 2016a). Future developments in local and global economies, the business environment, politics and law, society and technology are expected to reshape the roles and responsibilities of professional accountants in financial management and extend the scope of the subject matters they deal with. There are clear indications that financial management in both the private and public sectors in Kenya needs to be strengthened. An increased number of businesses have been unable to service their loans, with the value of unserviced loans rising from Sh212bn to Sh259bn during 2017 – representing a rise in the ratio of non-performing loans to gross loans from 9.1% to 10.56% in the year (Mwaniki 2018). Academic studies have urged SMEs in Kenya to move towards more structured and effective systems of financial management (Erambo et al. 2016; Kilonzo and Ouma 2015). One of these studies of manufacturing SMEs in Nairobi found that '55% do not have a formal accounting system and 74% prepared financial statements without a qualified accountant' (Kilonzo and Ouma 2015).

## 2.10 ISLAMIC FINANCE

The influence of Islamic finance is growing. Islamic financial institutions already operate in more than 75 countries worldwide, and their assets are expected to reach US$3.8 trillion by 2022 (ICD-Thomson Reuters 2017).

ACCA's research (2016a: 21) has shown that by 2020 basic knowledge of Islamic finance, Sharia compliance, Islamic political economy, Islamic capital markets, and risk issues in Islamic finance, will be necessary for all financial managers. Some financial managers will become specialists in Islamic finance. Islamic financial management is high on the list of areas where technical skills and management competencies are currently considered lacking in ACCA's global survey of the profession (ACCA 2016a: 40).

# 3. Policy development

## 3.1 GOVERNMENT

This report contains concerns expressed by professional accountants that the added value that they offer to businesses and government is not sufficiently valued in Kenya (see section 1.1.3 above). Despite this, there is an opportunity for Kenya to underline its role as the largest and most dynamic economy in East Africa by exploiting the quality of the country's accountancy profession and financial management. Kenya's economy benefits from professional accountants and the skills and knowledge they provide, despite not fully utilising this asset. The government of Kenya should recognise the greater opportunities available by involving accountants in the formulation of its economic development and investment strategies.

That opportunity should be backed by even stronger regulation of the accountancy role. Specifically, Kenya is blighted by the presence of individuals who use the job title 'accountant' without having the necessary skills or ethical standards of conduct to undertake that role properly. The occupation of 'accountant' needs to be protected in law and reserved for those who are recognised by a reputable accountancy institute, such as ACCA or ICPAK. It is also necessary for the accountancy institutes to enforce discipline, as is recognised by ICPAK (Gakii 2015). Roundtable participants were clear that this focus must intensify.

The government should also embrace the necessity of using professional accountants to undertake key financial management roles in central government, county government, the wider public sector and state corporations. These key roles need to be reserved for professional, qualified, accountants. Those roles also need to be paid at realistic levels to recognise the added value provided by qualified accountants. Payments are made to professional lawyers and medical doctors employed by government to reflect the reduction of the earning capacity they would have had in private practice: the same should apply to qualified accountants working in the public sector, as discussed in section 2.7 above.

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

Government should do more to strengthen its tax base and revenue generation. Accountants can play a central role in this, and not just as state employees. There is a role for the profession in providing advice to government, along with the wider public, in setting government priorities and budgets. There has been a strong call from aid organisations for increased collaboration between the government, civil society and private sector (Odhiambo 2017).

Kenya is an economic beacon in East Africa, but in global terms the country could, and should, do much better. This is made clear by its rating in the World Bank's Ease of Doing Business ratings, where Kenya is placed at number 80, performing badly in the way it conducts regulation. It has poor ratings for starting a business (rated at 117 of 190 countries); dealing with construction permits (124); registering a property (125); and trading across borders (106). There are also concerns over Kenya's rankings for ease of obtaining electricity (71); paying taxes (92); enforcing contracts (90); and resolving insolvency (95) (World Bank 2017b). Focusing on each of these areas of concern would make Kenya more attractive for foreign direct investment, would improve domestic business start-up rates and reduce impediments to business growth.

It is recognised that Kenya has made progress, but it needs to do more. It has been noted: 'In 2016, Kenya simplified the process for starting a business but also made it more expensive. Getting electricity, registering property, minority investor protections, and resolution of insolvency were improved. The government is the largest formal-sector employer. Illegal child labour remains a problem. The government continues to regulate prices

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

through subsidies on corn, milk, sugar, and other staples and through state-owned enterprises' (Heritage Foundation 2018).

Corruption remains a serious endemic problem for Kenya, undermining efficiency in both the private and public sectors. The 'Kenya Corruption Report', published on the GAN Business Anti-Corruption Portal, provides a forthright analysis of the problems: 'Kenya's competitiveness is held back by high corruption levels that penetrate every sector of the economy', it states. The report adds: 'Widespread tax evasion hinders Kenya's long-term economic growth, and fraud in public procurement is rampant' (GAN Business Anti-Corruption Portal 2017).

**Roundtable comments:**

*'Functions that need to be performed by accountants should be a preserve of qualified, regulated and practising accountants.'*

*'Accountants should be more significant at policymaking level to promote the ideals of the profession in offering solutions.'*

*'Professional accountants should sit on public sector boards, committees, parastatals, government agencies and non-state bodies to improve decision-making.'*

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

*'Government needs to pay non-practising allowances to professional accountants.'*

## 3.2 THE ACCOUNTANCY PROFESSION

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

Employers need to work with the accountancy profession to ensure that accountants realise their full potential in their role in Kenya's economic development. There is a great opportunity for employers to support the development of personal and corporate ethics by providing more on-the-job training and guidance, helping individual professional accountants learn to bridge the gap between ethics theories and their practical application. Participants in the roundtables argued that student accountants should be assisted through internships to prepare for real-world problems. It was also suggested in the roundtable that there is an opportunity for bodies such as ICPAK and ACCA to strengthen alumni networks with the aim of advancing the public good. Another proposal is for additional support for whistle-blowing and the promotion of the importance of whistle-blowing, especially in the public sector (ICPAK 2017).

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

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

**Roundtable comments:**

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

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

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