# THE CHARTERED Www.icaz.org.zw Company of the comp

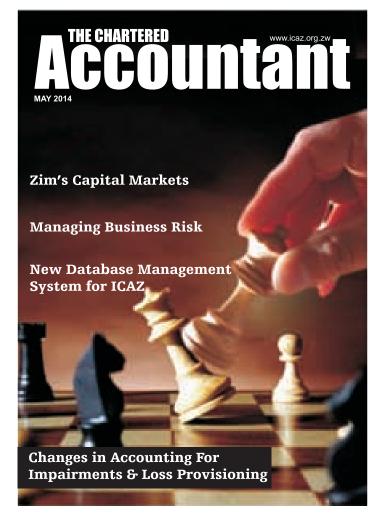
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## Your opinion matters!

We love to hear from you, so if you have an opinion about any of the topics you have read or others, feel free to contact us on:

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PRESIDENT'S MESSAGE



REETING to you all esteemed colleagues.
It gives me great pleasure to be writing this message in yet another edition of our prestigious magazine. Looking back, it is now 10 months since I assumed office and so far, the journey has been exciting

I am indebted and I pay tribute, to the Presidium, Council, Committees, Past Presidents and Secretariat for their continued support. Indeed it is their collective efforts which make ICAZ what it is today. I am proud to acknowledge the solid foundation of ICAZ which was built by those who have gone before us.

and stimulating.

It is pleasing to note that our brand, CA(Z), is a reputable qualification that is internationally recognized.

As a profession that prides itself on its integrity, honesty, responsibility, objectivity and credibility, we must continue to improve public confidence or risk losing legitimacy altogether.

I believe trust and value go hand in hand. It is therefore fundamental that we continue to build trust as a critical ingredient in enhancing our value and relevance.

As our economy grapples with a number of problems, one of which is the worsening liquidity crunch, the need for a vibrant and effective accountancy profession has never been greater.

There is therefore a need for Chartered Accountants to position ourselves firmly at the centre of championing good corporate governance and to actively participate in debates on economic and social development. Corruption is a huge monster that is destroying our economy. As the leading accountancy profession, we must champion good corporate governance as one of the most effective ways of addressing corruption and many other economic and business malpractices that afflict our economy.

#### **Winter School**

I am glad to inform you esteemed collegues that the 2014 Winter School, which had initially been earmarked to be held in South Africa, will now be held at Elephant Hills in Victoria Falls from 24-27 July.

This development comes after the ICAZ council resolved that the annual event will always be held locally as it is at this event that the AGM will be held.

Council felt that holding our AGM in another country would not be in true spirirt of re-building Zimbabwean businesses.

## New Database Management System (iMIS)

The Institute has migrated over to a new Database management system which is robust, world class standard and user friendly. The Database system will enhance your interactions and interfacing with the Institute. The logging of CPD hours, updating your personal details, online payments of subscriptions, events and seminars have now be made easier. We are kindly requesting

# 'Uphold good corporate governance'

THE OPPORTUNITY FOR CHARTERED ACCOUNTANTS IS TO POSITION OURSELVES FIRMLY AT THE CENTRE OF GOOD CORPORATE GOVERNANCE AND ALIGN OURSELVES WITH DEBATES ON ECONOMIC AND SOCIAL DEVELOPMENT.

members to embrace the new system and start navigating and using it. There was an e-mail with your new login details that was sent to all members for each of you to be able to access the system. Please contact the Institute if you have not received your new login details. We strongly believe that the new system will bring the much needed convenience to you.

#### Education

The Institute in March hosted a function for the conferment of certificates to successful students who passed the Zimbabwe Certificate of Theory in Accounting (ZCTA) and the Final Qualifying examinations written last year.

The pass rates were 64.2% and 70% for Public Practice Examinations (PPE) and Final Qualification Examinations (QEII) respectively. Though the pass rate is within the acceptable zone, it has failed to surpass the previous outstanding pass rates of 76.1% (PPE) and 71% (QEII). However, the pass rate is commendable and augments the Institute's strategy whose focus goal is "... to grow the ICAZ membership while maintaining quality and growing influence..."

The CTA pass rate for the 2013 examinations was 64.6% compared to 56.9% in 2012. This is commended as it raises the ICA7 bar.

In the Initial Test of Competence (ITC), formerly Qualification Examination Part1 (QE1) examinations written in January this year, 128 out of 153 candidates passed. This represents a pass rate of 83.7% compared to 71.1% last year. This was impressive and an all-time record pass rate. I would like to encourage the candidates to maintain this high standard as they prepare to write their final examinations in November 2014.

Congratulations to all the successful students.

#### Membership

The Institute, in the interest of the public, published the full ICAZ membership list in various newspapers, in order to curb unscrupulous people who masquerade as our members. This was also meant to alert the market to the fact that passing examinations and being admitted an ICAZ member are two different things. After the advertisements, more than 20 candidates, some of who qualified many years ago, applied for membership. Many more are in the process of applying for membership.

The Institute will be publishing updated membership lists more often.

#### **Engaging for Influence**

The ICAZ Council and other members of the profession are engaging government as we endeavour to add our skills and views to the various initiatives aimed at reviving our struggling economy. As pre-eminent professionals, we have unique skills and qualifications that our economy needs dearly. I therefore strongly urge you in your individual capacities, through the various organisations that you work for or are members of and in your

social circles, to actively engage government, business, labour, civil society etc for positive impact.

#### **Technical**

The Technical Committees came up with a draft Pension Fund audit report guidance paper that practitioners will use in the interim while the Institute continues to lobby with the relevant Ministry and Insurance & Pension Commission (IPEC) for legislative alignment of the Pensions and Provident Fund. This guidance is to assist the market to have a standard report for pension funds as there is currently inconsistencies and varied reports for Pensions Funds.

The Committee also came up with a by-law on sharing audit working papers between predecessor and incoming auditors that act as a guideline of what is expected of each auditor.

I pay special commendation and express gratitude to our various technical committees for their hard work and relevant contributions towards the development and advancement of the profession

## ICAZ-Old Mutual Fundraising Golf day

It is again great news that the annual fund raising Golf day, held at Chapman Golf Club, in March was a resounding success with 28 teams participating.

This was a memorable assembly of highly admired "golf experts" from the profession and executives from commerce and industry who are not members of the profession. It was a good networking opportunity. Congratulations to Team CBZ who were the overall winners.

The event also offered a good opportunity to fund raise towards the Institute's arm that primarily focuses on Corporate Social Investment (CSI), which is one of the essential elements of Good Governance. Old Mutual's participation as the Title sponsor of the event was highly valued.

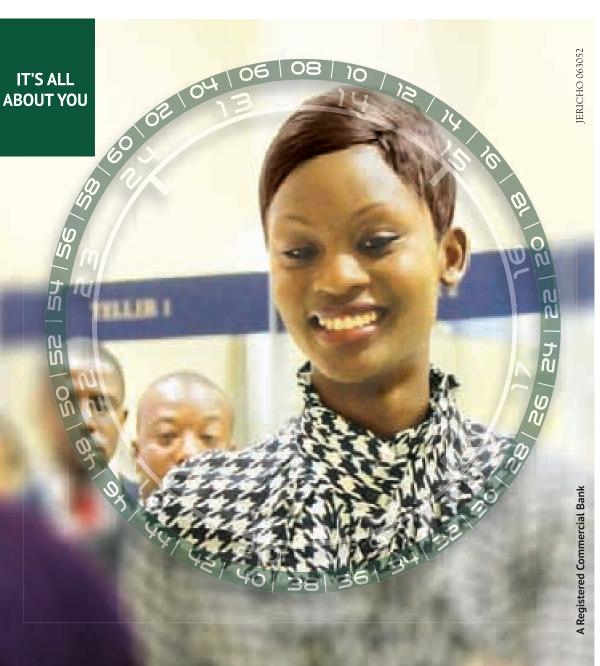
As such, this initiative should be lauded as it affirms ICAZ's commitment to plough back into the community as a way of reciprocating the existential symbiotic relationship we have with the community.

On the same note, I would like to express my innermost gratitude to our CASS society, through its President Batsirai Mhuka, for donating various items to Harare Children's Home on the 20th of April 2014. The involvement of CASS in such activities is highly laudable as it upholds our brand and shows that the profession will be left in good hands when the present generation moves on.

#### **Conclusion**

I thank Council, the secretariat and each and every one of you for your continued effort and support in upholding our institute and profession.

Tinashe Rwodzi President MBCA RETAIL BANKING



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#### **INSTITUTE NEWS**

# ICAZ implements new Database Management System



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF ZIMBABWE (ICAZ) HAS SUCCESSFULLY MIGRATED TO A SINGLE, INTEGRATED AND USER INTERACTIVE WEB BASED DATABASE FROM ITS MULTIPLE DATABASES (PASTEL, ACCESS AND THE WEB), WRITES EMMANUEL DHENHERE.

HE Institute of Chartered Accountants of Zimbabwe (ICAZ) has successfully migrated to a single, integrated and user interactive web based database from its multiple databases (Pastel, Access and the Web). This new Enterprise Resource Planning (ERP) system (iMIS- Membership Database) is expected to bring all modules under one system and members and students will be able to view their history under the system which is user interactive.

The implementation of this database was a culmination of consultations and recommendations of other similar Institutes. The database was recommended to ICAZ by other bodies like the Institute of Chartered Accountants of Scotland (ICAS), South African Institute of Chartered Accountants (SAICA) and the Zambia Institute of Chartered Accountants (ZICA) who all use iMIS. This database will allow ICAZ to maintain global relevance in

this fast changing technology reliant world.

ICAZ has already sent the new usernames and passwords for members to log onto the system and start giving their feedback. It has earmarked the next six months to improving the integrity of the data thereon as well as bringing into play all the functionalities of the ERP. The new database will allow for members to update their personal details online as well as update their CPD. It will also be used to manage events by allowing members to book online for some events which will automatically link to their CPD records.

The new system also allows members of the public to be able to look up a CA on the web. This is a very important feature given the number of cases the institute has had to deal with of persons misleading the public into believing they are members of the Institute.

As Zimbabwe continues to embrace technology and

move with the times, some functionalities like online payments via VISA or Credit card will be fully embraced by the system.

ICAZ is also working with its internet service providers to ensure that the system will interact efficiently with all members especially those in the diaspora where concerns on slow connectivity have been raised.

More functionalities are expected to be built into the database. ICAZ is appealing to those members who have exposure to this system to assist the Institute as it is its greatest desire to fully utilise this software.

iMIS is an ERP with the following modules:

#### 1. Relationship Management

Manage individuals and groups, membership programs, fundraising campaigns, events of all sizes, professional education, financial transactions, and marketing activity

#### 2. Self-Service

Enable constituents to easily do business with your organisation

#### 3. Social Engagement

Empower constituents to comment on and share your campaigns and content

#### 4. Private Communities

Encourage constituents to connect, communicate, and collaborate with each other

#### 5. Mobile Access

Engage on-the-go constituents anytime, anywhere, on any device

#### 6. RiSE Web Engagement Platform

Create and personalise constituent self-service, community, and mobile web pages

#### 7. Performance Measurement

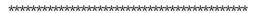
Monitor, analyse, and improve your organisation's performance

#### 8. Tools

Tailor the user experience, automate workflow, and integrate to external applications

Implementation of this database management system will in some way address the gap between members' expectations of what ICAZ can and should do for them when compared to other professional bodies.

• If you have any comments please do not hesitate to contact us on technical@icaz.org.zw.





Matts Kunaka

### ICAZ CEO appointed to IFAC's PAIB Committee

ATTS Kunaka, the CEO of ICAZ, has been appointed to the International Federation of Accountants (IFAC)'s Professional Accountants in Business Committee (PAIBC). The committee has 18 members and Matts is one of only two members from Africa, the other being Jan Labuschagne from South Africa.

PAIB Committee provides advice on relevant issues pertaining to professional accountants in business and the business environment in which they work. To fulfil the strategic objective, the PAIB Committee develops the following publications in English:

 International Good Practice Guidance (IGPG). These publications foster a common and consistent approach to the work of professional accountants in areas of professional accountants in evaluation and improvement in areas of international and strategic importance.

- Information Papers and Special Reports: These provide a detailed investigation into a particular subject of relevance to professional accountants in business, and sometimes include an interview based approach.
- Consultation or Discussion Papers:
   These seek comments from interested parties on the issues described, or promote discussion on issues affecting professional accountants in business.
- Web-based resource centers: These centers synthesise and highlight key issues and considerations for professional accountants in business and facilitate the sharing of member body and other resources and
- Forums and roundtables of experts and interested parties: These discuss key trends, issues, and emerging themes, their impact on the global profession, and how best to respond to and support the profession.

The PAIB Committee develops and implements a PAIB Strategy and workplan which is submitted to the IFAC Board for approval.

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#### **TECHNICAL**

# Changes in accounting I for impairments and loss provisioning



BANKS HAVE BEEN SADDLED WITH HIGH LEVELS OF NON-PERFORMING LOANS AND INCURRED SIGNIFICANT IMPAIRMENT CHARGES THAT NEGATIVELY AFFECTED THE SECTOR, WRITES **DICKSON MAGOMBEDZE**.

HE liquidity challenge over the past year has resulted in many entities failing to honour their loan obligations.

Consequently, several banks have been saddled with high levels of non-performing loans and incurred significant impairment charges that negatively affected profitability of the sector in 2013

The forthcoming changes in accounting for impairment of financial assets are likely to have quite a significant impact on financial institutions.

Currently, an 'incurred loss' model is used under IAS 39: Financial Instruments: Recognition and Measurement, where an impairment loss on a financial asset is only recognized when there is objective evidence of impairment as a result of a past or incurred event.

Any expected losses from future events, no matter how likely, are not recognized. Some examples of objective evidence of impairment noted in IAS 39 resonate with a lot of bank customers in the current environment and include: (a) significant financial difficulty of the borrower; (b) breach of contract such as a default or delinquency in interest or principal payments; (c) the lender granting concessions (due to economic, legal or other reasons) to the borrower that the lender would not otherwise consider; and (d) high probability of bankruptcy of the borrower.

In March 2013, the International Accounting Standards Board (IASB) issued an exposure draft (ED) 'Financial Instruments: Expected Credit Losses 'that proposes to replace the 'incurred loss' model of IAS 39 with a forward-looking 'expected loss' model, under which impairments would be recognised before a loss event has actually occurred.

The 'expected loss' model reflects the deterioration in the credit quality of financial assets such as loan portfolios and debt securities as it accelerates the recognition of impairment losses by requiring provisions to cover both already incurred losses and losses that are expected in the future.

This big change in accounting for impairment is likely to have a significant impact on banks and similar financial institutions as financial assets from lending and investing are at the heart of their operations.

The expected loss model requires recognition of (1) lifetime expected credit losses for financial assets whose credit risk has deteriorated significantly since initial recognition or (2) a 12-month expected loss allowance for all other financial assets (i.e. expected credit losses that result from possible default events on the financial instrument that are possible within the 12 months after the end of the reporting period.)

Operationally, the expected loss model results in a significant increase in the number and complexity of judgments as it relies on entities being able to make robust estimates of expected credit losses as well as the point at which there is a significant deterioration in credit risk since initial recognition of a financial asset.

Entities will need to put in place systems and processes to adequately and accurately capture credit loss information that is (1) forward-looking, (2) probability-weighted and (3) adjusted for time value.

All of this is very different from current rules which are based on backward-looking incurred events.

The IASB is finalizing the final requirements for impairment of financial assets model which will be incorporated into the new standard IFRS 9 Financial Instruments that will replace IAS 39.

Tentatively, entities will be required to apply IFRS 9 for annual periods beginning on or after 1 January 2018.

Dickson Magombedze CA(Z); CPA (USA), is a Partner with KPMG Zimbabwe and writes in his personal capacity. He can be reached at:dmagombedze@hotmail.com

## **Executive Appointments**

Never Nyemudzo

CBZ Holdings Limited Board has appointed Never Nyemudzo as Group Chief Executive Officer with effect from May 1, 2014.

Nyemudzo is a Chartered Accountant with over 13 years experience in the financial services sector.

He holds a Bachelor of Accountancy Degree and a Post-Graduate Diploma in Applied Accountancy from the University of Zimbabwe. He also holds a Master of Commerce in Strategic Management and Corporate Governance from Midlands State University.

Nyemudzo started his career with BDO Zimbabwe where he did his articles and held senior manage-

ment roles at the Reserve Bank of Zimbabwe, First Banking Corporation and the People's Own Savings Bank.

Prior to his appointment as Group Chief Executive Officer, Nyemudzo was Chief Finance Officer within the group.



Collin Chimutsa has been appointed to the position of Group Chief Finance Officer with effect from May 1, 2014.

Chimutsa is a Chartered Account-

ant with over 22 years experience in the financial services sector.

He holds a Bachelor of Accountancy Honours Degree from the University of Zimbabwe.

Chimutsa began his career with Coopers & Lybrand Chartered Accountants. He joined Delta Corporation as Finance Director for United Bottlers before moving to to Founders Building Society, now ZB Building Society where he was Managing Director for 11 years.

He joined CBZ Bank Limited in 2009 as Executive Director, mortgage finance, the position he has held until his latest appointment.

\*\*\*\*\*\*

Glorian Zvaravanhu has been appointed to the board of the Industrial Development Corporation (IDC) with effect from April 1, 2014. She is the General Manager, corporate services for NicozDiamond and is also the Company Secretary.

Corporate services houses finance, human resources, information technology and treasury. She is a young and dynamic professional who has managed to give outstanding performance in everything she does.

Zvaravanhu is a qualified Chartered Accountant who is a member of both the Institute of Chartered Accountants Zimbabwe (ICAZ) and the South African Institute of Chartered Accountants (SAICA). She holds a Master's in Business Leadership Degree from UNISA and a Bachelor's Degree in Accountancy from Rhodes University.



at KPMG Chartered Accountants where she did her articles. Zvaravanhu has more than 10 years experience, (six of them at executive level) in financial management, auditing, corporate finance, administration and treasury.

She also sits on the ICAZ council and is also the chairperson of the Audit and Finance committee. She is also a trustee of the Legal Resources Foundation of Zimbabwe.



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RISK MANAGEMENT DOES NOT GUARANTEE BUSINESS SUCCESS BUT VERY IMPORTANTLY ENHANCES A COMPANY'S CHANCES OF SUC-CESS, WRITES **RABIRO MANGENA**.

IMBABWE'S corporate history has never been faced with a number of critical and challenging risks than is the case now.

Business performance is generally below par and a lot of companies are haemorrhaging value.

The fact that competition for the diminishing market size has become too stiff, business leaders cannot afford any slip up.

Some of the factors fuelling this failure are exogenous, but quite a number of them are within the ambit of executives' influence.

There are cost control challenges and inefficient allocation of capital in a number of companies.

Lack of robust systems and internal processes around strategic and critical objectives are resulting in experiencing financial losses through fraud and corruption.

The foundation of risk management lies in the ability to extrapolate the future, by identifying aspects that could negatively affect a business in achieving its objectives

Risk management is an art of identifying issues that could affect an organisation's ability to achieve its strategic objectives.

Budgets, policies and procedures, insurance and

even the various functional units that make up an organisation are all risk management tools.

Since risk management is about managing those factors that could affect an organisation's ability to achieve its objectives, it follows that setting and identifying strategic objectives should precede risk assessment

Once the objectives have been identified, an event analysis which involves identifying those events that could affect an organisation in achieving its objectives must follow. This stage is more of brainstorming what could go wrong.

In Zimbabwe a number of local companies failed to identify and analyse events that were brought about by dollarisation.

There was so much optimism that executives overlooked the risks of failure to achieve the targets they had set.

A lot of companies borrowed and inefficiently allocated the funds. Some of these companies are now restructuring their business operations and debts to manage the resulting effect.

Yet companies without the capabilities to manage these risks have either collapsed or are struggling to come out of the woods.

The incidence of fraud and corruption has also exposed executives who failed to identify the increased motivation for fraud commission. They did not put mitigatory systems to reduce the opportunities that promote fraud which results in financial losses and increase in operating costs.

The evaluation of the risks can also be through a simple impact and likelihood model or through a causal model where for each consequence of risk identified, one or more trigger events are identified and evaluated.

The evaluated risks are then prioritised according to their overall impact to the organisation.

A risk map is a useful tool that helps to diagrammatically present the risks. There have been cases in Europe and America of motor vehicle recalls from the market due to certain malfunctions.

The companies did not adequately consider the likelihood of the malfunctions occurring and did not therefore give attention to the relevant internal processes.

The choice of alternative risk responses will be influenced by a number of considerations. A company in Zimbabwe that seeks to manage the risk of cost escalation of raw material needs to consider a number of factors in choosing the right risk response.

Backward integration may only manage the volatility of raw material supply but not the price, especially if the target company has inefficient processes.

It can consider importation of the raw material that could come at the right price but there could be risks of volatility in supply and logistics. Government policy thrust in respect of imports is also critical to consider. Therefore the right risk response will depend on a number of factors.

MAY 2014 www.icaz.org.zw

**ECONOMY** 

# How to beat deflation



WITH MORE MONEY FLOWING OUT OF THE COUNTRY THAN COMING INTO IT, THE GOVERNMENT IS BROKE AND THE COUNTRY'S FINITE SUPPLY OF US DOLLARS HAS BECOME INCREASINGLY PRECIOUS, WRITES RYAN HOOVER.

89,700,000,000,000,000,000,000%

HAT was Zimbabwe's rate of inflation in November 2008.

To put that mind-boggling 23-digit figure into perspective, this means that the price of most goods and services was doubling every five days. Cash left in wallets lost measurable value with each passing hour and people needed armloads of the stuff just to buy groceries.

The government snapped the hyperinflationary cycle by scrapping the Zimbabwean dollar in favour of the US dollar. With new confidence that the value of their cash would hold its value, consumers began to save again.

But now, cruelly, it appears that price levels have shifted into reverse. On March 18, the National Statistics Agency reported that annual inflation for the month of February came in at -0.49%. Yes, Zimbabweans now live in a deflationary economy.

#### How on earth did this happen?

After years of decay to its agricultural and manufacturing sectors, Zimbabwe produces very little to export. This problem has been compounded by political turmoil and policies that force foreign companies to surrender control of assets, which reduce outside investors' appetite for putting money to work in the country.

Therefore, with more money flowing out of the country than coming into it, the government is broke and the country's finite supply of US dollars has become increasingly precious.

Rampant unemployment has left people with barely enough income to cover necessities, and businesses have been forced to reduce the cost of goods and services to entice them to surrender whatever disposable income they may have. This further erodes margins, which leads to more job cuts, and the vicious cycle repeats itself.

So, what does this bleak outlook mean for the Zimbabwe Stock Exchange?

As one might suspect, deflation's not a great state of affairs for most stocks. Lower revenue typically means lower earnings which typically means lower stock prices.

The recent performance of the ZSE's main index bears this out. It has dropped nearly 4% over the past 12 months and just shy of 13% so far in 2014.

#### **Five Stocks to Beat Deflation**

But don't despair. Zimbabwe investors can blunt deflation's impact with some careful stock-picking. Here are five shares whose valuations should stay relatively buoyant in spite of deflation.

#### 1. Econet Wireless

Zimbabwe's largest telecommunications company looks like a great defensive investment. It maintains a near monopolistic hold on a product (wireless communication) that has become a necessity of life. Econet also boasts huge margins that will allow it to remain profitable even after slashing its tariffs and rolling out 4G network infrastructure.

What's more, a new mobile payment service has caught fire. Ecocash registered 76% subscriber growth during the first half of the 2014 fiscal year, and total transaction value has surpassed \$1.2 billion.

Still the stock trades at an undemanding 7.6x earnings multiple.

#### 2. Delta

Delta, the country's main brewer, is adapting to deflation by rolling out affordable substitutes to its premium beers. The reduced demand for its lagers will weigh on margins but its sorghum-based brew, Chibuku, has proven so popular that the company's existing plant has been stretched to nearly full capacity. A second brewery is now on the drawing board. The company's also experimenting with smaller package sizes that are less taxing on consumers'

zes that are less taxing on consul

wallets

The shares have dropped nearly 18% so far this year, which, is an appropriate discount for the tough medium-term environment the company faces. Now, trading at 13x trailing earnings and a 3.1% dividend yield, the stock should be a relatively stable deflation bulwark.

#### 3 Padenda

Another way to take a bite out of deflation is by investing in companies that export most of their products. Crocodile-farmer, Padenga Holdings, is one such firm. It's one of the world's biggest suppliers of reptile skins to the global luxury goods market. It also recently expanded its operations to the USA, further protecting it from economic travails at home.

Investors can purchase shares of the company for less than 10x trailing earnings, and management says demand is "exceptionally strong."

#### 4. Seedco

Like Padenga, Seedco's geographic expansion dilutes its exposure to the Zimbabwean economy. One of Southern Africa's largest producers and marketers of crop seeds, the company saw its sales sprout almost 30% higher during the first half of its 2014 fiscal year. Unfortunately, this big gain didn't filter down to the bottom line as much of it was absorbed by provision for bad debts. But a capital injection from new partner, Limigrain, should help nurture Seedco to greater profitability quickly.

The share price is down 12% so far this year, giving the stock a trailing P/E ratio of 17.9.

#### 5. Rainbow Tourism Group

Zimbabwe's tourism industry is well-insulated from deflation and fared relatively well in 2013 in spite of election year uncertainty. Total tourist arrivals rose 2%. Rainbow Tourism Group operates hotels in Zimbabwe, Zambia, and Mozambique. It boosted its room occupancy rate by 9% in 2013 while growing revenue 6%. Management is keen to retire debt and build up a healthy balance sheet. That's music to this potential investor's ears.

The stock currently trades at less than 1.5x book value.

 Ryan Hoover is a Portfolio Manager with Africa Capital Group and blogs at www.investinginafrica.net.

# MANAGING BUSINESS RISK

**«** 

Risk responses are broadly categorised into risk avoidance, risk acceptance, risk reduction and risk sharing. In each of these categories, there are a number of actions that can be adopted.

An effective risk management is one that is supported by the board. The board should make a deliberate decision to implement a risk management framework.

This must be followed by allocation of resources to

enable the organisation build the required capabilities to implement the framework.

This will include putting the required structure and acquiring training and knowledge, among other issues. The board must also commit itself to monitor the risk management system through receiving and deliberation of risk reports.

Risk management does not guarantee business success, but very importantly, it enhances a company's chances of success.

It provides more meaningful information to executives to make informed risk management decisions.

A risk assessment that has been properly carried out will promote efficient allocation of capital as processes that are critical to the success and failure of a business are identified.

 Rabiro Mangena consults on risk management and corporate finance issues under BDO Zimbabwe. He writes on his own capacity.

# Capital qualities

# What needs to be done for Capital Market to be truly vibrant

ECONOMIC STABILITY NEEDS TO BE PRIORITISED, ECONOMIC POLICY SHOULD NOT BE ANTAGONISTIC TO THIS CAUSE AND THE IMPLEMENTATION GAP NEEDS TO BE BRIDGED FOR REAL PROGRESS TO BE RECORDED IN THIS FRONT, WRITES **ALBERT NERUMEDZO**.



TRONG capital markets drive economic growth and development, premised on the notion that access to financial resources is the life blood of industry growth and developments.

Indeed no country has made significant growth without a strong financial system yet alone adequate and vibrant capital market infrastructure.

Zimbabwe's capital markets have history tracing back to 1896 when the pioneer column arrived in Bulawayo.

The Zimbabwe Stock Exchange (ZSE), to date has 67 listed companies, 5 suspended and 62 actively trading.

Market capitalisation at present is around US\$4.91 billion, having reached its peak at US\$6 billion in July 2013.

Foreign Portfolio contributions to Turnover have averaged 55% to 65% against average annual Turnover of US\$443 million since 2009.

The financial market landscape in Zimbabwe is fairly more developed relative to most African countries.

Growth and development efforts were antagonised by a period of economic upheaval, this consequently led to an infrastructural gap against other African capital markets like Namibia, Kenya, Mauritius, Ghana, etc.

While financial market infrastructure has depleted over the years, the current recovering infrastructure is still in a position to reclaim its position on the African continent as one of the most vibrant and developed Capital markets.

The technical and operational issues confronting the ZSE come secondary in the line of issues that need to be addressed to increase vibrancy on the local bourse.

The chief quandary that warrants address immediately is the prevailing economic environment.

Economic stability and growth is the backbone of capital market growth and development, sound economic fundamentals and policy frameworks form the foundation for Industry development and growth which in turn which forms the

underlying growth and development in Capital markets.

If the operating environment is constrained, industry capacity is diminished, eroding player competitiveness and profitability and if listed companies are not doing well then there are no attractive earnings to drive a formidable investment case on the local bourse.

The operating environment in which companies are operating under has significant bearing on the profitability, survival and growth of listed companies, which in turn forms the investment decision making process.

Economic stability needs to be prioritised, while economic policy should not be antagonistic to this cause and the implementation gap needs to be bridged for real progress to be recorded in this front.

Unless key economic deliverables are addressed, operational and technical aspects of development on the local bourse will have little impact on vibrancy. The stock market will not be spared from the suppressed liquidity, critical sector incapacitation and waning demand aggregates, as long as key economic issues are left unattended, development and growth of Capital markets will continue to mirror the broader economic environment.

At present over 60 percent of turnover is shared among a small fraction of counters mainly heavyweight counters such as Delta, Econet and Innscor and 65 percent of Market capitalisation is concentrated around these three counters.

This supports the notion that many of the listed companies are not doing well enough to attract investment which is inevitably because of the operating environment.

Automation, integration and market deepening by increasing available traded instruments in the form of derivatives and other capital market investment instruments will play a supporting role, at the forefront of driving vibrancy, efficiency and growth on our capital market.

Albert Norumedzo is an Equity and Alternative Investment Analyst.

## **ICAZ Notices**

#### Tax Practitioners

The PAAB statutory instrument only allows members registered with the Institute of Certified Tax Accountants (ICTA) to practice as Tax practitioners.

It also states that a person registered as a public tax accountant is not entitled to provide auditing services.

In light of this, PAAB confirmed that ICAZ members can continue to practice as Tax Practitioners as they have been serving this role before the emergency of

ICTA has indicated that ICAZ members qualify to be members of ICTA upon application

For more information relating to ICTA registration contact the Institute of Certified

Tax Accountants on admin@icta.org.zw or on 0772669980/ 0775011797.

#### Partnering with non CAs

Firms should ensure that on any audit engagement, at least the 2nd partner should be a CA. Council noted the need for the Institute to exercise disciplinary action on any of its members should a complaint be received for audit work carried out. This is not possible if none of the engagement partners is a CA.

#### Winter School

Council resolved that starting from this year's winter school (24-27 July 2014) going forward, ONLY ICAZ MEMBERS will be allowed to attend Winter Schools. This is a reminder for those who qualified to sort out their membership whilst there is still time.



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# Unlocking business value

# $\dots$ Role of IT governance

AS BOTH BUSINESS AND PUBLIC SECTOR ORGANISATIONS ARE BECOMING INCREASINGLY DEPENDENT ON IT, THERE IS GROWING RECOGNITION THAT IT GOVERNANCE IS AN ESSENTIAL PART OF BROADER CORPORATE GOVERNANCE, WRITES **JOSEPH GOROMONZI**.



EFINED as the responsibility of company executives and board of directors, Information Technology (IT) governance ensures that the organisation's IT sustains and extends its strategies and objectives.

Good IT governance aligns a business strategically to support the evolution of a firm's architecture so that it delivers consistent and scalable business value.

It helps to measure the business's growth and success, including its financial health.

As both business and public sector organisations are becoming increasingly dependent on IT, there is growing recognition that IT governance is an essential part of broader corporate governance.

The global village has created new technology and business opportunities but also involves increasing risk in areas of business continuity, information security and failure to acknowledge changes that are necessary for business prosperity or survival.

Management needs to pay attention to it, reviewing how strongly the firm relies on IT and how critical it is for the execution of the business strategy.

Many company executives still consider IT to be too complex, technical and difficult to govern and IT governance still is perceived as a Chief Information Officer (CIO) issue

As such alignment between IT and business strategy as well as between IT and business governance remains weak

Improving governance in organisations is a strategic change process. Governance is not just a new process but it also needs a new mindset and behaviours at senior levels of both IT and business.

The established power centres within organisations do not always welcome greater transparency and accountability.

Experience suggests that strong support from chief executive officers and chief information officer and gradual increase in governance maturity usually works better than constant tinkering.

Organisations are reluctant to invest in IT without evidence of payback.

The key to IT optimisation lies beyond the type used and cost of the technology. It is not what you spend but how you govern what you spend that matters.

We have seen spend on IT projects fluctuating widely in recent years, from boom to the slump because of the current economic situations.

In reality, we have seen few IT projects delivering their full total potential value because they are operating in silos and are not woven into the overall strategy.

To make for a robust case for IT investments, the CIO

has to measure and demonstrate the value of IT to the business.

In most cases, the CIOs are facing two challenges — to keep the lights on and pushing the strategic agenda.

We should always remember that there is no single governance model that fits all organisations across the business sectors.

In some organisations, the CIO is at board level, some at executive levels and some set up a governance committee to drive and others lack governance structures at all.

Thus, it is not the model that makes the structures succeed but the way in which IT is connected to the corporate decision making process.

Organisations that figure out how to govern IT driven change are more likely to realise value – but those that do not may experience serious and visible failures.

Proven practices in realising value from IT and delivering reliable and secure IT services have been available



on the market and embracing them does not have to be complex or expensive.

From business improvement to strategic transformation initiatives, executives appreciate that IT can be a powerful tool to help their organisation achieve its most important objectives.

IT can represent a core driver of cost savings for large scale transactions across mergers, acquisitions and divestitures.

IT is often the key interface with customer and is therefore the public interface.

Executives need to feel confident that investments in IT are likely to realise value in their businesses.

Many executives regard anything related to IT as mysterious, technical and risky.

As a result, they fail to apply known and proven techniques when managing investment in IT.

By helping executives use the information to acquire a 360-degree view of their customers, IT also triggers a quantum shift in the business model from one focused on specific services to one intent the much rewarding, long term benefits inherent in a relationship based approach to customer service.

We have seen lack of board oversight for IT in most organisations.

Discussion on IT at board level is done on two occasions; firstly, during annual budget and when IT related failures have already resulted in financial losses or corporate embarrassments

Successful firms strive to avoid serious failures through effective governance. They plan and execute a strategic undertaking with oversight at the highest levels to avoid the risk of failure. They also make sure controls are in place to avoid operational risks when new services are delivered.

Organisations that have implemented effective IT governance have put in place business-led structures such as IT executive or board committees to provide enhance direction and gain better control of IT related activities

Getting better business value from IT requires the right leadership; well defined processes with clear roles, responsibilities and accountabilities; appropriate structures; and supporting metrics, information and tools.

While boards usually look at business strategy and strategic risks, few boards have focused on IT, despite the fact that it involves perhaps the largest investments they will ever make and associated risks, for example, firms in the telecommunication sector are making huge investments.

Good governance requires active, continued and committed involvement from business leaders and their working understanding of the role of IT and how it contributes to value.

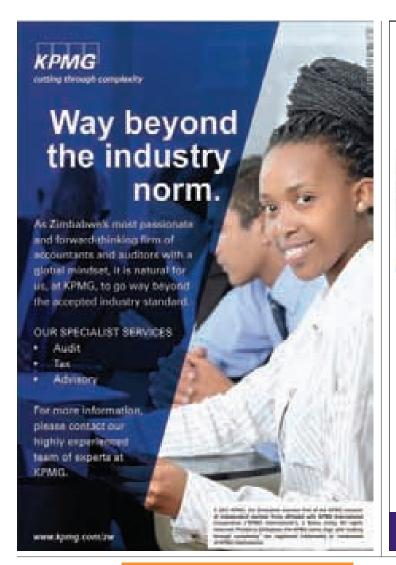
Without such commitment, value will not be created. One of the most effective means of continually ensuring that IT contributes measurable value to the enterprise's objectives is a strategic, leadership-sponsored commitment to establishing a comprehensive IT governance capability.

Thus, IT governance is concerned with two outcomes: IT's delivery of value to the business and the mitigation of IT risks.

Both are enabled by strategic alignment of IT with business and the availability of adequate resources.

The value that an organisation gets from IT is not in correlation with how much is spent, but it is the by-product of value created by the way IT is governed and is aligned to business.

● Joseph Goromonzi [B.Tech.Acc (UZ), MBA (UZ), FCIS, RPacc] is a Business Consultant.





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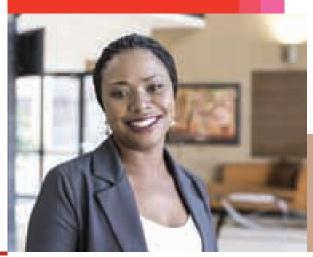


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## What does the future hold for CFOs?

THE ROLE OF THE CFO HAS MOVED SWIFTLY AWAY FROM BASIC ACCOUNTING, BOOK-KEEPING AND FINANCIAL STEWARDSHIP, TO A BROADER ROLE THAT HAS BECOME MORE DEFINED IN STRATEGIC LEADERSHIP TERMS DUE TO GREATER ECONOMIC UNCERTAINTY AND BUSINESS CHALLENGES, WRITES **PHILLIMON MHLANGA**.



HILE the blame for the crisis that has troubled many companies has been laid at many doors, finance executives, who are responsible for managing the financial risks of companies, have escaped largely unscathed although the numbers and their reporting are at the centre of the crisis.

For a profession that prides itself on its integrity, objectivity and credibility, very few people pause to reflect on what has happened to the chief financial officer (CFO)'s role over the past few years.

The role of the CFO has moved swiftly away from basic accounting, bookkeeping and financial stewardship, to a broader role that has become more defined in strategic leadership terms due to greater economic uncertainty and business challenges.

Traditional skills for the CFOs are now simply the entry ticket to the playing field but the finance executives who holds one of the toughest jobs in the world has to be armed with tools needed to navigate a constantly changing trading environment.

To succeed in the future, CFOs need to adapt their abilities to reflect a more uncertain, dynamic and global game. They will also need to balance many new and conflicting priorities, reacting swiftly to emerging issues as soon as they arise.

This is because the game itself has changed, so CFOs need to adapt. With this, some will rise to the challenges and opportunities ahead and others will not.

"We are at an inflection point in history. We are aware that tomorrow's juggling act will become even more complex," says a CFO with a local leading financial institution.

"It's a matter of frustration that we are not always appreciated for the work we do. Part of the problem is that when things go right — as indeed they usually do — very few people notice. But when things go wrong, they can go wrong spectacularly and very publicly. That is one of the reasons why there is such a gap between how accountants see themselves and how others see them."

As the CFOs head into the future, instead of concentrating on things that are not core by consuming a large proportion of their time collecting data, consolidating and harmonising it and manipulating it, they should focus on their real business, that of interpreting the calculations before making a business recommendation.

Some of the key issues and priorities include regulation. CFOs have an increasing personal stake in, and accountability for, regulatory compliance.

CFOs have to deal with changing tax laws which have become applicable to 2014 financial statements.

Tomorrow's CFOs will need to adapt to different rules

CFOs need to be at the heart of the data revolution — that means spending less time on recording and verifying the numbers and more time on making the data connections and explaining the number implications

and regulations if they are to support the expansion of business into new markets.

The tactical issues will need to be combined effectively with good cultural and cross border working relationships.

Technology is the next key game changer as large and complex data provides challenges as well as significant opportunities for analytical insight.

CFOs need to be at the heart of this data revolution — that means spending less time on recording and verifying the numbers and more time on making the data connections and explaining the number implications.

Making decisions on when and how to upgrade the company's hardware and software projects can give a CFO plenty of sleepless nights.

We all have heard the horror stories of the incredibly expensive but non-functional hardware upgrade or horrific cost overruns in software conversion projects.

But we have also seen once prosperous, cutting-edge companies lose huge chunks of their business when they fall behind technologically.

Another key challenge for the modern CFO is risk management. Complete risk avoidance is not an option.

The board, external investors and other stakeholders will look to the CFO for ever greater assurances over the financial viabilities of the business' strategy.

Risk management is important to CFOs, yet a great deal of practice today appears to have flaws.

Transformation is the next area of change. The imperatives to reduce costs, improve efficiency and become a better partner to the business mean that CFOs will need to ensure that finance is a catalyst for change.

Outsourcing and shared services will figure highly in this re-engineered world.

Stakeholder management will demand more time with CFOs increasingly becoming the face of the corporate brand.

Indeed they already fulfill this role with investors but will have a broader circle of stakeholders to please in the future- banks, tax authorities, external auditors and the media

There will also be a greater role to play in strategy validation and execution. Finance professionals will need to make greater connections between the strategy of the organization and its finance and risk processes.

Reporting will expand from the traditional to the triple bottom line. Financial reporting will be joined with social and environmental metrics — something that can be a balancing act today, let alone tomorrow.

Instituting fraud prevention systems and internal controls entails a lot more than protecting cash drawers and securing bank account statements.

Today there are threats from cyber thieves of every ilk, creating previously unheard- of risks such as re-routing of goods, raiding online bank accounts and wholesale identity fraud.

CFOs are expected to put system that prevents corrupt practices and expanding business without increasing risk.

This is the old-age dilemma of all successful companies. Expansion could boost revenue and profit but it also could lead to higher expenses, great forecasting uncertainty and other risk.





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# **ICAZ PHOTO GALLERY**



From left: Mr. Nyasha Zhou(Guest of Honour), Tinashe Andrew Chigodo (Best Overall Student and Best TIPP student) and Tinashe Rwodzi, ICAZ President.



Team AMG at the ICAZ-Old Mutual Golf Day.



S. Chitehwe, ICAZ member, playing at the Golf Day.



Jubilation at the Graduation Ceremony.



Team CBZ- winners of the 2014 ICAZ-Old Mutual Fundraising Golf Day.



Former PM participating at the Golf Day.



Matts Kunaka, ICAZ chief executive (middle) chats with Jan Labuschagne, CEO of Wasteman Holdings, South Africa (left) and Charles Tilley, CEO CIMA, UK and Chairman of PAIB Committee, after the PAIB Committee meeting in New York.



ICAZ President Tinashe Rwodzi chatting with ICAZ Past Presidents, from left, Matts Kunaka, Brian Njikizana and David Gwande (extreme right).



#### **CORPORATE GOVERNANCE**

# **Emerging Morality**

HAVING LIVED AND WORKED IN BOTH DEVELOPING AND EMERGING MARKETS, *HATITYE ZHAKATA* EXPLAINS HOW BEST TO AVOID SOME OF THE PITFALLS OF DOING BUSINESS THERE.



S emerging markets take on a more important role in the global economy, global corporations are now searching for opportunities in these areas now more than at any other point in history.

That in itself poses new challenges that many of these corporations have never experienced. Having lived and worked in both developing and emerging markets, I will share my experiences with you on how best to avoid some of the pitfalls of doing business there.

In the 20th century, the main area of concern for the authorities in the developed world became the extent to which multinational corporations were engaged in corrupt activities especially bribery of foreign officials in order to obtain business contracts.

At that time, there was the infamous "10 percent." This referred to the amount of the value of the total contract that was to be paid in bribes.

The corporations would then disguise these payments in their financial statements as "consultancy fees" or some other vaguely defined business expense.

Today, these concerns remain but as the world has become more demanding for corporations to be socially responsible there are more expectations on businesses to be ethical in their dealings.

It is common that foreign officials create opportunities for themselves often by lengthening what are already bureaucratic processes in order to leave foreign corporations with no choice but to pay bribes in order to get things done expeditiously. Multinational corporations on the other hand, feel they do not have a choice and often believe that is the way things are done in emerging markets. This is especially true when their business involves resource extraction such as gas, mining and so on, which limits the choices for those businesses because they can only operate in those countries where the resources are found.

To highlight the seriousness of the matter; a recent report by the African Union states that over US\$148 billion is lost to corruption in Africa every single year, a figure that is equivalent to 25 percent of Africa's Gross Domestic Product.

Another study by the World Bank states that public officials in emerging markets receive between US\$20 billion and \$40 billion in bribes every year. This translates to between 20 percent and 40 percent of total official development assistance.

It is because of these problems that various mechanisms have been put in place by different authorities across the globe to ensure that corporations refrain from unethical business conduct.

A prime example is the United States Foreign Corrupt Practices Act (FCPA) of 1977 which prohibits any individual or corporation with ties to the United States from making any item of value - whether it is cash or not - as payment to a foreign official for the purposes of obtaining or retaining contracts for themselves or on behalf of someone

 Hatitye Zhakata, B.Acc (Hons), CFE, CBS is a global consultant with over 10 years experience. He specialises in combating fraud, waste and abuse. He can be contacted at hatyz@live.com or LinkedIn.

# Matamba & Company celebrates anniversary





IN JANUARY 2014 Matamba & Company celebrated their 20th anniversary.

The firm owes this achievement to the vision of the founders, the dedication of their team, the strength of their partnerships, and the success of their clients.

Matamba & Company is a partnership of professional accountants, providing auditing, tax, accounting and company secretarial services to privately owned organisations, public companies, parastatals and not for profit organisations.

The company started operating on January 2, 1994 and is registered in Zimbabwe in terms of section 32 of the Public Accountants and Auditors Act (Chapter 27:12) as well as section 8 of the Chartered Accountants Act (Chapter 27:02).

Matamba & Company Chartered Accountants (Zim) is a member of Geneva Group International. Geneva Group International (GGI) is a global Alliance of independent professional firms.

#### Local strength, Global Structure!

Their 20th anniversary has come at a time when they are also celebrating admission into one of the world's leading networks, Geneva Group International (GGI).

GGI is a multi-disciplinary network of accountants, tax consultants and solicitors. It

has more than 376 member firms in over 100 countries.

It has been consistently recognized as one of the top 10 networks in the world and currently ranked 6th in the world (according to a recent survey carried out by Accountancy magazine, the UK's leading publication for the profession). It is headquartered in Zurich. Switzerland.

As a member of GGI, one of the top 10 international accounting, consulting and law firm alliances, they are able to deliver the best possible advice on a global scale. Through GGI, the firm says they have access to experts around the world who are able to give advice on local regulations, compliance and go-to-market strategies.

"GGI's broad international presence opens up a gateway to the global marketplace for both us and our clients.

Through our GGI membership we have access to high quality firms in nearly every major financial and commercial centre worldwide. This remarkable facility applies whether you are looking for business opportunities beyond national boundaries, or need international support in addition to services in your home market" said Bernard Matamba, the firm's Managing Partner.

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# Power of image enhancing

# Aligning personal & corporate image

IF YOUR BRAND CAPTURES THE MIND IT WILL CAPTURE BEHAVIOUR AND IF IT CAPTURES THE HEART IT WILL CAPTURE COMMITMENT, WRITES **PATRICK KARIWO**.



HAT is all the fuss about image?
Well, one may wonder but the need to be mindful about who and what we are was made clear at Harare airport last year.

I sat there waiting for our scheduled flight to Victoria Falls for a retreat hosted by one of the Institutes.

I noticed a young man (professional, I assumed) walking by. Right away, I was positively impressed and my decision was influenced by the following;

- A confident and pleasant outlook (ready smile too)
- Posture that indicated control and awareness
- Appropriate business casual which featured all the elements (quality, style and fit)
  - Strong body language indicating energy
  - He gave every impression of physical fitness

It was all good until the moment that he walked up to the newspaper stand and began to sniff loudly, offensively even, I would suggest.

In that brief exchange with a newspaper vendor, my opinion of him as the upwardly mobile professional changed

The impression of polish, sophistication and debonair corporate leader was done away with. All it took was one small, seemingly insignificant act to relegate him into the nameless, faceless mass of numbers waiting to board the next flight, just that quickly.

And so it is with image management, the little things count for much more than we can ever imagine.

There is need to shift our consciousness into a higher gear in the current business climate, from this point on, it's "all days alert".

The need to align your personal and professional brand has never been more crucial.

The background is this — the accounting profession, arguably, has long been one of the most admired and respected.

Sadly, the global scandals involving the likes of Enron and WorldCom including, locally, our own descent into the numerous examples of "creative" and dishonest accounting have dealt the profession a heavy blow.

Now, perhaps, is a good time for the profession and its representatives to consider enhancing their collective brand.

I meet with many accountants and am convinced that most desire the development of a defined and powerful image, to be perceived as a capable and professional so and so who is able to make the right decisions when ethical issues confront them.

An ideal start may be defining branding itself.

My all time favourite definition says that products are made in the factory but brands are made in the mind, it's

all about perceptions.

Branding is a set of differentiating promises that links you to the market.

In the end, if your brand captures the mind it will capture behaviour and if it captures the heart it will capture commitment.

#### Why does this matter now?

We know in this era emphasis has shifted from working with our hands to an emphasis that combines the following, ideas, reputation, business alliances, customer relationships and your intellectual input. It's all about soft skills!!

And so it is with accounting, how does the CA of today achieve differentiation, stand out and create opportunities for themselves. Remember, the idea that you are capable is not immediately apparent to those you interact with, so, work to develop your relationships, convey trust and confidence in all you do. Image enhancement is driven by personal contact in order to drive credibility and differentiation.

It's less about what you know but who knows you. This is all part of what is creating pressure for the professional — striving to achieve perfection and authenticity all at the same time.

So, now that we've established the critical need to establish differentiation across numerous networking platforms the next question is, how?

The first consideration in your branding strategy involves developing your thought leadership and relationship building. People who are achieving results beyond the norm must be willing to take a stand, to have convictions one way or the other.

In doing this, one gains recognition even though, it means that we will repel as many people as we will attract, potentially. The world wants substance and measurement and your outlook and actions must speak to this reality.

Secondly, the current context for work demands that we take charge of our careers, "being our own bosses", in a sense

The operating landscape has shifted so dramatically that we can no longer expect organisations to shoulder the burden for our career path development. Twenty to thirty years ago, you got in and were managed right to

Image enhancement is driven by personal contact in order to drive credibility and differentiation. the end complete with pension.

Clearly, that's no longer the way of the work world so today's CA must walk, talk, dress in a manner that clearly brands him for what he / she represents. Building a reputation is now absolutely critical to career success.

The next suggestion for differentiation is forgetting that you were ever in a race to get to some mythical top inh

This may seem revolutionary but the truth of the matter is, those who use this approach can become so narrowly focused that they miss out on the big picture.

And this bigger picture is your career, fulfilling your life mission, connecting with your purpose in a way that negates authority in preference for the development of influence.

The pre-occupation with promotion suggests that nothing much matters beyond your job title and yet, clearly, the complexity of the business matters that need resolve demands genuine thought leadership. Consider your career, now, as a ramp to even greater social impact, everything counts so use everything at your disposal to achieve distinction. Be more deliberate in demonstrating your value.

Personal branding is the intangible value that you must now bring in terms of your ability to influence others, leveraging your experience, the relationships you build and maintain and so on.

Lastly, whatever you do, wherever you are keep building your brand, be mindful in your actions, put a mark on everything you do. Branding must be infused in all you do. With this in mind, strive to achieve distinction in order to avoid extinction by remembering four key areas of your branding;

- Mind your communication (written & spoken)
- Mind your appearance
- Mind your business etiquette in meetings, over the telephone. e-mail etc
- And keep growing all aspects of your emotional intelligence

I always receive questions on the aspect of appearance and, granted, things are tough but let's develop clarity on what it means to "dress to impress."

The business casual movement seems, at times, to carry on all throughout the week! Understand your industry and client's dress code, business casual has so many meanings that it should be approached with caution.

At the end of the day, we all have a choice, are you building or detracting from your brand? The CA of today needs to pay attention to the details in much the same way that he should approach his/her work.





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