The Africa Business Agenda

October 2013

3rd edition

Doing business in Africa – from the perpective of CEOs and PwC executives on the continent

pwc

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5. The risk agenda

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The financial crisis saw over $50 trillion in wealth being wiped out as well as several banks. The rise of emerging markets combined with globalisation, the impact of data technologies, the increased influence of external stakeholders and continued repercussions from the aforementioned global crisis all now combine in a landscape of uncertainty and complexity.

The fast-changing African marketplace is causing many companies to initiate business transformation programmes to better position themselves and also to allow a clearer strategy regarding risk appetite, risk attitudes and approaches, while considering investing or operating on the continent.

Company boards and management in Africa are now, more than ever, under pressure to reform how risk is assessed and then to monitor the effect of such risk on their organisation's performance. Three-quarters of CEOs in our Africa survey say that they anticipate changes to their risk management strategy this year. Each director should understand the company's key risks and be comfortable that management is appropriately addressing those risks.

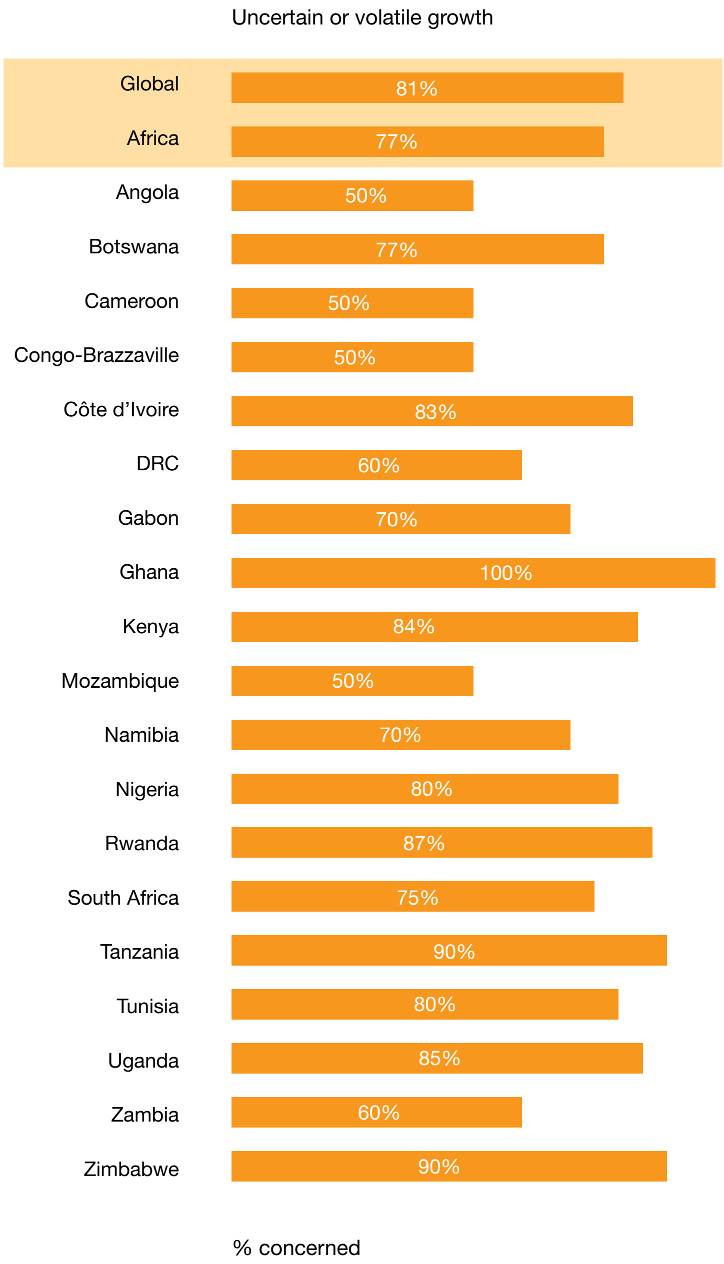
When 2011 brought the tsunami in Japan and floods in Thailand, many companies were surprised at how these distant disasters affected their supply chains. Around the world, companies realised they needed to address unexpected or unplanned risks. It's the same for directors, as they are concerned about the risks that are around the corner, ones their companies cannot see yet.

This points to the need for proper crisis management plans. In our survey, CEOs are roughly split between those who say that risk management is centralised (54%) and those who say it is decentralised (44%) in their organisations. The majority say that they dedicate more risk management resources to predicting high-impact events (56%); fewer say that they dedicate resources to recovering from risk events, should they occur (41%).

Tarek Cherif, President of Groupe Alliance in the chemicals and construction sectors and of CONECT, an employer representation organisation in Tunisia, puts an emphasis on a predictive approach and on selectivity with regard to risk management. Growth accompanied by high risk is, according to him, 'incompatible with the size of our companies, which tend to be small or medium sized, as the appearance of a significant risk could push them under'.

Figure 10: Economic conditions seen as a significant risk

Q: How concerned are you, if at all, about the threat of uncertain or volatile economic growth?



At least half of all CEOs in every country surveyed are concerned about the threat uncertain or volatile growth poses to their businesses. However, the average level of concern for the continent is still slightly lower than the global average.

Other significant risks identified by respondents include bribery and corruption (76%), over-regulation (69%) and government response to fiscal deficit and debt burden (66%).

Risk management priorities

CEOs need to make sure:

- The company's strategy is right;
- Management understands and appropriately handles key risks;
- The company operates ethically;
- The company produces results that are reasonable, given the resources it is using and the risks it is taking;
- The company only engages in major transactions and relationships that are likely to add value;
- The company has an effective management team that understands the risk landscape in Africa;
- The company communicates reliable information to allow shareholders and stakeholders to make informed decisions; and
- The board has the directors, committees, information and meeting time it needs to carry out its other responsibilities effectively.

Companies in Africa may face other risks in the years ahead, including continued recessionary pressures, global financial shocks, resource nationalism, legislation, changes in political leadership, social or political unrest, cyber security breaches, weak or falling commodity prices, supply chain and infrastructure capacity (including power), global market shifts, currency volatility, access to capital and fraud.

These risks are not new to companies and CEOs operating in Africa. Many of them have sophisticated risk management policies in place, and so the changes that they anticipate are not fundamental in nature. Even so, CEOs must consider strategic responses to the risk landscape, including:

Building in risk resilience to respond to unexpected, cascading risks

Organisations can push harder to build resilience to emerging risks, which might include 'horizon scanning', early-warning systems, scenario planning and flexible risk-appetite statements.

Africa's business environment will remain unpredictable, ambiguous and fast moving, demanding that companies operating in Africa will need structures that are resilient to risks when and where they occur. This may mean more focus on a risk-aware corporate culture that challenges conventional (Western) approaches and promotes better emerging risk management aligned to emerging-market thinking.

People and performance

Organisations can take holistic measures like developing risk-related performance incentives and conducting skills audits to identify resource gaps. One benefit of a more appropriate relationship between risk and performance is giving an organisation and its management the confidence and incentive to take 'smart' risks, rather than completely suppressing risk appetite and making executives overly risk averse.

A correlation between risk and performance, and now reward, means change may be required in several areas of a business. Performance measurement tools and techniques may require redesign, and this would include a far greater inclusion of non-financial measures than is presently seen. The operation of remuneration and risk committees and how they monitor and measure performance may also require an overhaul.

Technology and cyber risks

Africa is not immune to business results being impacted by a minefield of cyber risks, including system failures, security breaches, the viral effect of social media and intellectual property abuse (privacy). Addressing growing risks from digital technology and social media, organisations will need to seriously increase their use of intellectual property, brand and reputation audits.

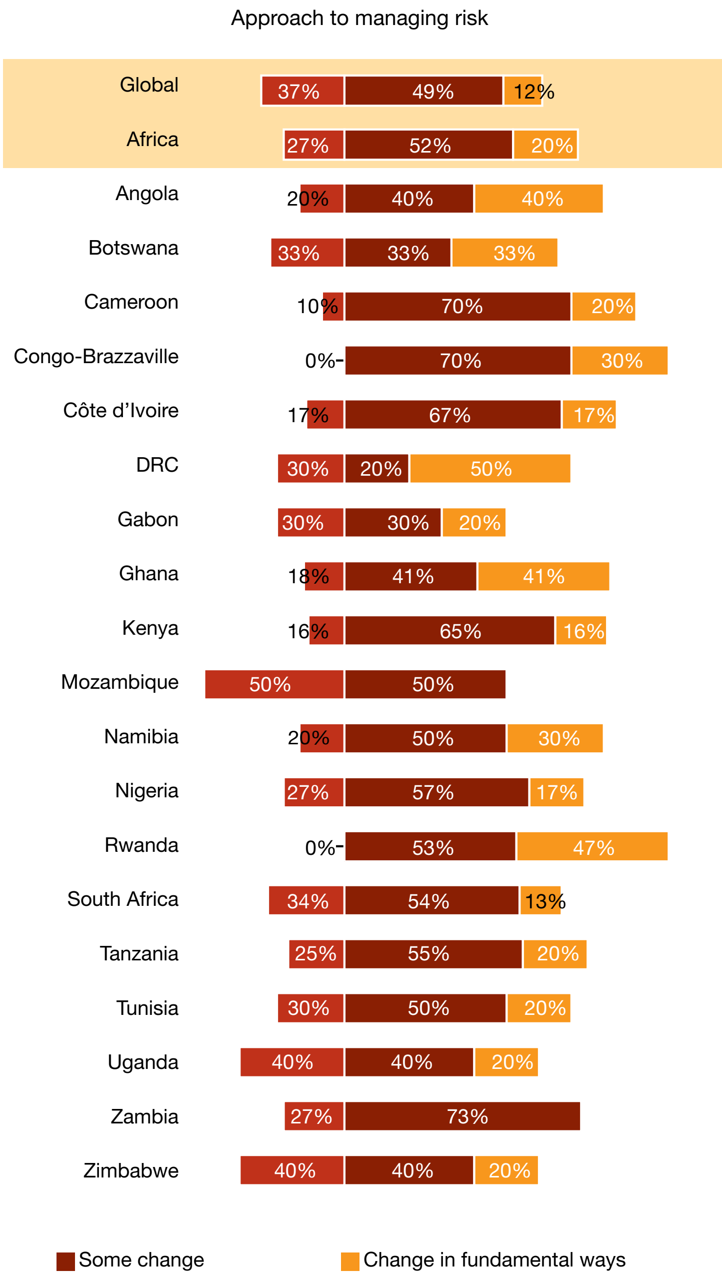
African companies need to assess whether they have structured programmes in place to track and respond to unfavourable social media feedback and proper controls for any new digital approaches such as cloud technology and 'bring your own device' arrangements.

Next-generation risk analytics

Across the continent and across industries, organisations can draw on sophisticated techniques to identify hidden patterns and risk linkages in large sets of data. These tools can include integrated risk data warehouses and risk dashboards. These dashboards allow executives the ability to assess events-driven changes and emerging risks.

Figure 11: Businesses are changing their approach to managing risk

Q: To what extent do you anticipate changes in the approach to managing risk in your company over the next 12 months?



The array of threats facing businesses in Africa continues to evolve, but so too are businesses' responses to them. But CEOs in Africa are not taking these challenges lying down. They are more likely than their global counterparts to take steps to make their organisations more adaptable and resilient – and better prepared to take advantage of opportunities when they arise.

Effective risk management

To be effective, risk management in Africa needs to consider whether it strives for these benefits:

- All strategic opportunities have been identified and realised;
- Management has undertaken a complete identification of all risks;
- Accountability is clear and executives know who is doing what;
- Resources are appropriately allocated and if not available in-house, they are sourced or 'rented' as required;
- Mitigation are prioritised and rapidly dealt with for the organisation's larger, more critical risks;
- Decision making regarding the taking of 'smart' risks is well considered and measured;
- Time and effort are not wasted on irrelevant/lesser risks and issues; and
- Objectives are met faster with more cost-effective realisation.

Savvy CEOs understand that even crisis management has changed with globalisation and technology developments. So, they need to ask executives to explain how plans incorporate social media and other new communications vehicles and whether the company is testing the plan. CEOs also know one of their fellow executives may someday need to step in when a crisis hits and take more direct responsibility for handling communications or even company operations.

In South Africa, the King III report on Governance acknowledges that strategy, risk, performance and sustainability are inseparable – as such, companies in Africa can take these interrelationships even further and link them to overall company performance.

Strategic risk is, by its nature, predominantly realised over the long term, which is aligned to organisational sustainability. In contrast, performance and reward tend to be based on short-term performance. Achieving an alignment to organisational sustainability lies at the core of addressing the reward debate. The risks undertaken in delivering financial results should be accounted for when assessing performance.

Q: What are the most significant threats your business is facing in Africa and do you feel adequately prepared to manage them?

"Our risk management approach is characterised by many strategic initiatives, strategic decision making at senior level, predicting events and centralised risk management. The main risks are operational and technological risks. Risk management is at the heart of our concerns."

Ismaïl Mabrouk, CEO, Mabrouk Group

Created in the 1950s, the Group Mabrouk is one of the largest in Tunisia. Its activities are organised around four pillars: large-scale distribution, telecommunications, automotive concessions and banking. Its financial subsidiary Maghreb Invest was created in 1994. It also has operations in Morocco and Algeria.

"Our consumer goods business unit is directly impacted by the economic stretch of the last 12 months. Our turnover is actually growing, while margins are shrinking. The cost of moving goods from the shelves is becoming a real sustainability threat to the actual business model.

We have been able and are still able to attract people with the appropriate skills and qualifications. However, the cost of hiring such people in the fast-moving consumer goods sector has drastically increased.

Tax is definitely a threat to the sustainability of the business. Parallel imports are also a big issue, as more and more informal players are importing genuine products from Dubai, mainly, and selling them at a very low price. Strategic decision making at the senior level is a start to managing the risk of where the company will go. Getting staff to understand and hence to be fully involved in strategic orientation is key for them to also measure the risks."

Daniel d'Arifat, Deputy Chief Executive Officer, Pharmacie Nouvelle Ltd, Mauritius

Godwin Emefiele

An in-depth interview with Godwin Emefiee, Managing Director and CEO, Zenith Bank plc, Nigeria

Zenith Bank plc is a leader in financial sevices with headquarters in Nigeria and subsidiaries in the United Kingdom, Ghana, Sierra Leone and Gambia as well as a representative office in South Africa.

Q: What is your experience of the risks and rewards of Nigeria's growing economy?

Prior to 2008, we had seen some growth from development in the capital market and in the oil and gas downstream sector in particular. Unfortunately, as a result of the global economic crisis at the end of 2008 and 2009, we saw a lot of Nigerian capital market portfolio holders in other parts of the world selling off their positions and our stock market dropped. Before then, the Nigerian banking system had been well insulated. There were a few bubbles; some banks had issued a lot of loans to people who were speculating, we saw prices drop and banks lost money as a result.

In mid-2008, crude prices dropped, affecting the downstream sector. In 2009 we also saw the currency appreciate. Those with current account foreign exchange positions lost money and there were quite a few who could not absorb these losses.

Between 2009 and 2010 we saw a period when the market was down but towards the end of 2010 we saw the banks start to come back. A few people have accused Nigeria's banking sector of not supporting growth. What we saw during that period was loan portfolios had come down as a result of losses and banks were more reluctant to grant loans. A portfolio might have been worth one trillion naira and then have fallen to a value of 800 billion but by 2011 it had increased back to one trillion. Whereas the initial loss was circumspect, the 200 billion in growth was real, but people didn't see that because they were looking at the one trillion number only.

Now we're moving to 1.2 or 1.5 trillion since Central Bank Governor Sanusi's reforms and we've seen real support to sectors in the economy like agriculture. We've also seen about 300 billion to refinance companies that needed their loans restructured. These and other activities have contributed to economic growth.

From around 2010, there has been a lot of talk about growth in the power sector. I couldn't be more confident of the aspirations of government through the concession process that is already going on. Many of these assets are currently lying fallow. We expect that by August 2013 these assets will move from the hands of government to the hands of private sector people. Once that happens, we believe that the rate of growth in power generation and distribution will increase and banks will naturally be involved in that process.

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Risk management in Africa

What does it mean to manage risk in our markets?

CEOs in Africa are clearly very conscious of the importance of risk management in their companies. In the context of often changing and unpredictable environments, they have learned to adapt and are continually seeking to improve performance in this area. It is no surprise therefore that there are widespread efforts to increase awareness across functions and that efforts are made to identify and plan for potential risks in advance.

Different approaches for different companies

Diversification is often cited as a fundamental strategy with regard to risk management. Many CEOs have mentioned geographic decentralisation or decentralisation of activities. Aziz Mebarek, Co-founder of Tuninvest/Africinvest, explains how his firm has now raised funds in the US market with a view to investing in the African continent, thus balancing risk between different regions in the continent.

Several other companies have been actively pursuing growth strategies across the African continent, which automatically reduces their exposure to any single country. Family-owned groups such as the Cevital in Algeria and Groupe Mabrouk in Tunisia are active in a wide range of sectors, which also spreads risk.

Other companies have considered diversification, but decided to focus their expertise on a single area. Sodeico, an HR services company in the DRC, has chosen to grow its operations geographically. Without major changes in activities, some companies are expanding product ranges to attract different types of customers. SIFCA in Côte d'Ivoire is widening its consumer base for sugar and palm oil products by developing branding and packaging that will appeal to different consumer groups depending on their socio-economic profile and spending patterns, among other factors.

Technology is also being used to manage and reduce risk. Alain Ditona Moussavou, Chief Executive of the Gabon government investment fund Caisse de Depôts et Consignations, explained how his group has invested in a state-of-the-art ALM system, which allows it to calculate liquidity, interest rate and counter-party risks for its asset portfolio with the objective of better managing target asset allocations and liquidity in the context of risk-return optimisation.

Another best practice risk management approach utilised by Orange in Côte d'Ivoire is to cascade strategic decisions from the senior level, in coordination at group level by Stéphane Richard, Groupe CEO, then to the regional and local levels. At the local level the approach is then participative or 'contributive': workshops on the strategic vision allow all employees to express themselves about the concrete implementation of strategic choices. Risk management is ideally predictive but sometimes reactive depending on the subject; centralised risk management can occur in the context of specific strategic subjects such as interface with the government, the regulator, etc., where high-level decision making and risk management control is required.

"In a context of enlargement and structuring of the African branches of the Groupe BMCE bank, it is important today to work on consolidating the structures and foundations of our group in terms of optimisation of risk and governance. It is essential for us to conform to international regulatory norms that are decreed by the range of regulators supervising our banking establishments.

Implementation of a global approach for risk management and internal controls will contribute to the securitisation and sustainability of financial performance of our banks and consolidation for the group. At the same time, it will allow for the spreading of practices among our employees that help them identify, understand and act on risks that in the end our group either manages or has to endure. The risk management culture will be inscribed as a key constituent within the group's structure, a part of its DNA code.

To achieve this consolidated and efficient management of the group's obligations and risks, it is fundamental to share expertise and optimise potential synergies.

We intend to use several risk management drivers. These include the contribution of expertise for the subsidiaries with basic risk management practices via access to tried-and-tested tools and methodologies. They also include the sharing of information and experience leading to fluid communications, anticipation, synergies and a mutualising spirit. Finally, we believe that these efforts will also lead to a reduction in grey areas regarding loan portfolio quality from the moment the client has signed, allowing us to better manage probability of risks."

Brahim Benjelloun, Director and Delegate General Manager, BMCE
BMCE Bank is the second-largest private bank in Morocco and operates in 14 countries across Africa through its Bank Of Africa network.

Bribery and corruption in Africa

In this year's survey, 76% of CEOs told us that bribery and corruption is a threat to growth and it consistently ranks among their top three risks.

Bribery and corruption is just one of 27 risks that we test for and yet it generates more comments and anecdotes than all of the others combined. This could be because there is an emotional aspect to bribery and corruption that other risks (like inadequate infrastructure, or an increasing tax burden, or energy costs) simply do not have. It is also often very poorly understood. Some CEOs have told us that 'it is hard to know whether bribery and corruption is getting better or worse' in their markets.

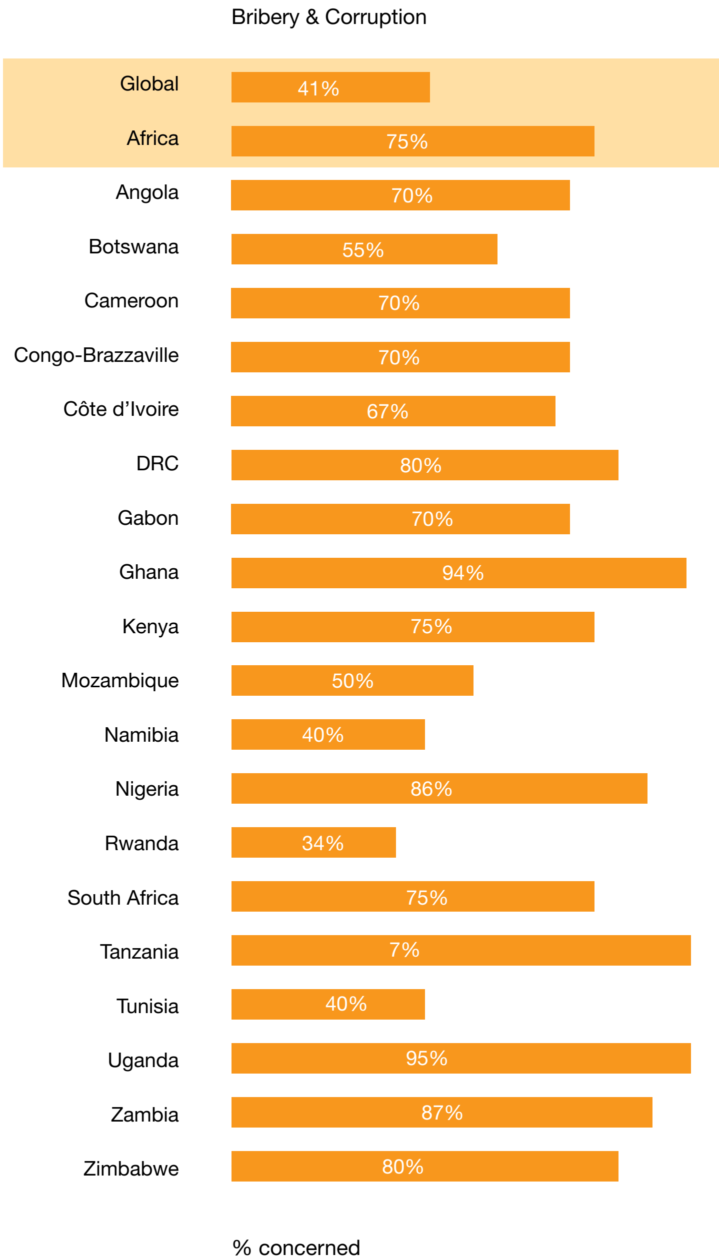
By sharing a variety of perspectives on bribery and corruption we can help to shed light on the problem. One CEO attributes bribery and corruption to laziness, for example. He says that ongoing, deeper conversations with government make all the difference, and he blames bribery and corruption on weak parties who want to expedite processes and cut corners.

For processes to work and conversations to happen, however, there must be trust. Both parties must trust that the outcome of conversations will be transparent action, and the processes in place must move forward in a comprehensible way. But 'meetings, meetings and more meetings' leading to no action and no transparency, as one CEO put it, can be enormously frustrating.

Bribery and corruption is often attributed to a lack of accountability, up and down the food chain, including public and private sector players alike.

Figure 12: Bribery and corruption a major concern

Q: How concerned are you, if at all, about bribery and corruption?



A very significant percentage of CEOs in Africa view bribery and corruption as a threat to growth, compared to the global average. Only in Namibia (40%), Tunisia (40%) and Rwanda (34%) are CEOs roughly aligned with their global peers on this issue.

Engaging with government might be more effective if companies in common industry sectors worked together to communicate common priorities. This seems like common sense, but not always. It depends very much on the personalities and cultural standards in the local market. One-on-one meetings or a company-by-company approach may be preferable to lobbying by an industry group. As always, deep in-market knowledge of these dynamics is critical.

Another strategy to fight bribery and corruption is to implement whistle-blowing policies and anti-corruption practices internally. Most companies will have these in place, either in response to the UK's Anti-Bribery Act or the US's Foreign Corruption Practices Act, or their own company requirements, or a combination of these.

Other CEOs have told us about carefully selecting who they partner with to control their exposure. Their vetting process for suppliers and service providers is rigorous and defensible. However, building a company culture that resists bribery and corruption is still the best safeguard.

At the end of the day, companies are succeeding in Africa without participating in bribery and corruption. The point here is that there are opportunities for companies that operate like this; there is money to be made and it is a successful business model. The knock-on effect on corporate culture helps to reinforce it.

"As regards economic risks (fraud and corruption), the SIFCA group works closely with the governments in countries where it is active to support initiatives for the harmonisation of regulations at regional level. The struggle against fraud is a priority because it can have a strong negative impact on our business. For example, we apply the applicable VAT rates in every country where our products are sold. As a result, they are not competitive with products that are imported illegally and that do not have VAT applied. It is not normal that competition develops in an informal way by products that do not participate in the fiscal effort."

Bertrand Vignes, CEO, SIFCA, Côte d'Ivoire
Founded in 1964, SIFCA is a leading African agribusiness group, involved in the cultivation, processing and marketing of vegetable oil, natural rubber and cane sugar. With 29 000 employees and nine subsidiaries, the group is present in Côte d'Ivoire, Ghana, Kenya, Liberia and France.

Corruption in the DRC can be a real curse. It impacts the entire economy. Because of the avidity of a few persons, working in a normal way is very difficult and you have to face attempts to block your activities. It is an obstacle to the activities of both international investors coming into the DRC and national companies. However, in our company we can work at avoiding corruption thanks to our growth prospects. We have a policy of zero corruption. We noticed that to conquer a market, we have to negotiate directly with the main decision maker. To pursue this business practice, we need to be economically strong because, in our sector, attempts at corruption can include blocks on payment that can last for months. I feel sorry for small groups in our sector giving in to corruption when they face payment blocks."

Mbanzi Elof Moupondo, CEO Sodeico, Democratic Republic of the Congo

Tax strategy and corporate reputation

CEOs worldwide are facing a host of tax issues in the wake of changes in legislation and corporate governance principles, as well as increased scrutiny from governments and tax authorities. The world's leaders at the recent G8 Summit held in Northern Ireland reached agreement on rewriting global rules on tax transparency. The corporate tax debate is gaining momentum in the face of the current uncertain global business and economic climate, as governments come under increasing pressure to reduce deficits or increase economic stimulus.

Global organisations are feeling the heat, particularly those whose tax strategies have been caught in the spotlight of the media, and CEOs will have been alerted to the impact that corporate tax strategies may have on reputational risks. However, the evidence suggests that there is some sort of disconnect. PwC's new report, 'Tax Strategy and Corporate Reputation', shows that almost half of CEOs do not consider corporate reputation a priority area for investment in the year ahead. According to the report, there are signs that CEOs are failing to invest sufficiently in the management of their corporate reputation. In our Africa CEO Survey, however, 65% of survey respondents say that they plan to invest in managing their corporate reputation this year.

Our 16th Annual Global CEO Survey provides a summary of findings on tax issues affecting CEOs and it shows that there are regional variations. CEOs of companies in North America are the least likely to make any change to their plans for managing corporate reputation. Given that the recent high-profile debate about corporate taxation has centred largely around US companies, most notably Amazon, Google, Apple and Starbucks, the issues of trust and corporate reputation are likely to move up the agenda of North American CEOs over the coming months.

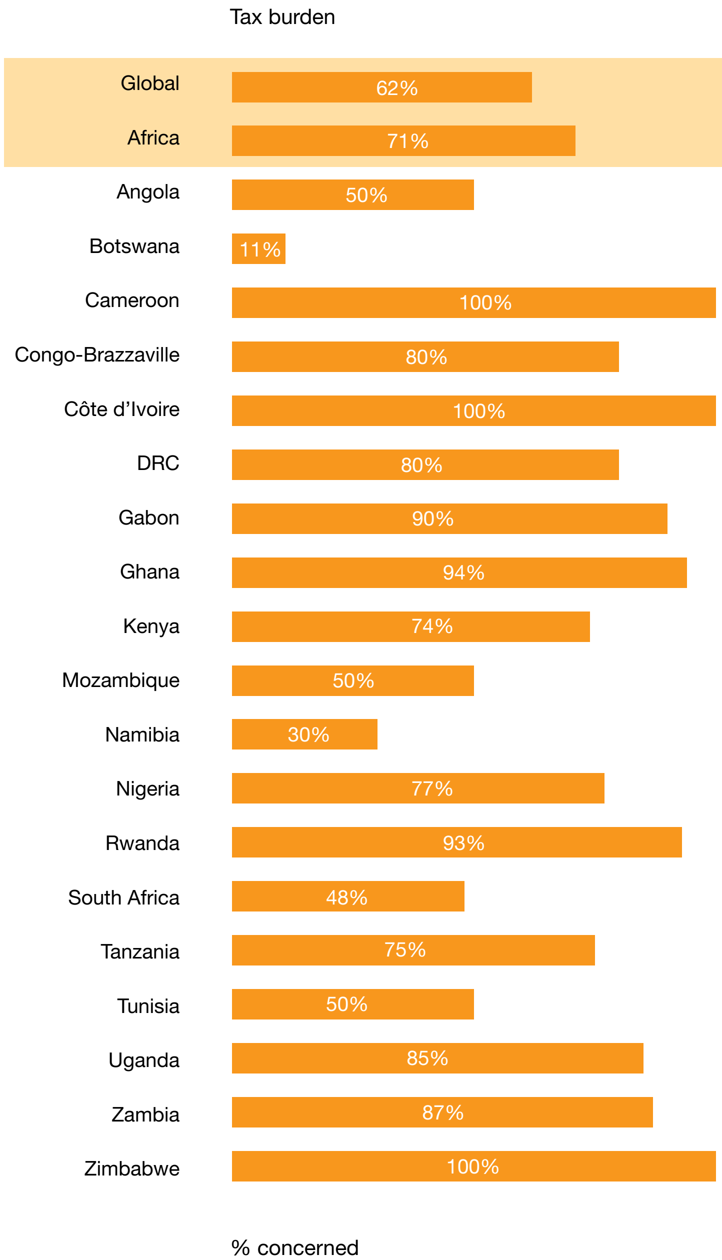
The report points out that the international tax system is out of date and was never designed to deal with the way in which business operates today.

Africa CEOs seem to agree; less than a third on average say that their governments are driving convergence of global tax and regulatory frameworks. The principles governing the taxation of cross-border trade are between 40 and 100 years old in many cases. Until the world's governments tackle the issue of an outdated international tax system, opportunity for avoidance will remain.

There are more risks around tax – reputational and strategic – than ever before. Tax is on the agenda of an increasing number of stakeholders – and more tied than ever to corporate reputation. Nearly half of CEOs in our Africa survey (43%) say that their approach to tax planning and tax contribution will change this year. Managing the link between tax strategy and corporate reputation should become a higher strategic focus for business in 2013.

Figure 13: Tax

Q: How concerned are you, if at all, about facing an increasing tax burden?



As many governments in Africa make strides towards improving their fiscal accountability, at least half of CEOs in every country other than Namibia believe that an increasing tax burden poses a threat to growth.

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While there is no right answer as to what a tax strategy might look like, a tax strategy should ensure that there are policies in place to manage the incidence and impact of tax across the enterprise. Most CEOs in Africa say that an increasing tax burden is a threat to growth. Tax strategies should align with the business strategy and principles of good corporate governance. The allocation of resources, relationships with advisors, criteria for measuring tax effectiveness and external reporting are elements that should form part of the strategy. Finally, processes must be in place to ensure that the strategy is carried into effect in the day-to-day activities of the organisation.

The traditional approach to taxation, which focused mainly on compliance, has now evolved into the enterprise-wide management of tax.

The Organisation for Economic Co-operation and Development's (OECD) report, 'Co-operative compliance: a framework from enhanced relationship to co-operative compliance' will be published shortly and will make reference to the concept of tax control. As tax authorities globally change their approach from an adversarial enforcement strategy to a co-operative compliance model, so taxpayers will be compelled to change their approach regarding the management of tax.

There are many methodologies that can be used to illustrate how a company meets its tax obligations, including country-by-country reporting, an approach commended by various civil society organisations and now under consideration by legislators in some jurisdictions.

PwC's Total Tax Contribution model can assist companies to identify and measure their overall tax contribution. Stakeholders should be aware of the overall tax that a company contributes annually as a good corporate citizen. A total tax contribution report enables corporations to disclose information on all taxes borne by it as well as those collected on behalf of the revenue authorities.

This will show that the company is responsible for tax revenues not only in respect of its own profits but as an employer, VAT vendor, etc.

Organisations need to develop resilience if they are going to succeed in the current environment. Trust is an essential component of the relationship between a company and its stakeholders and, as such, is a vital element of this resilience. Formulating a comprehensive tax strategy should be a key strategic priority among companies in Africa and globally.

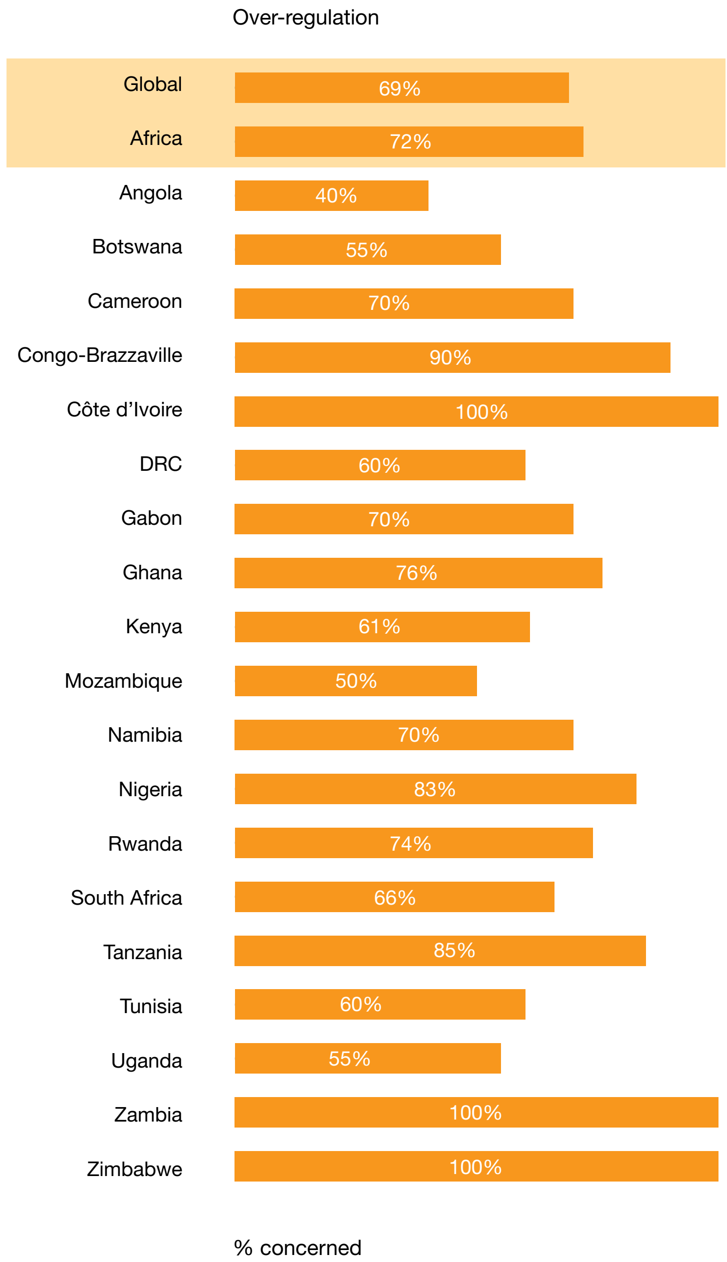
"The fiscal environment is, to me, a critical aspect of the business environment. However, we know some countries where the tax system is heavier than it is in Africa, and where people still go because they can earn a good return on investment. Taxes should not be too high in order not to deter investors. To me, many efforts have been made in the subregion, in the West African Economic and Monetary Union (WAECM). However, there is still room for improvement, as many countries are lagging behind. In my opinion, the tax system is not the main topic. We should rather focus on adapting the tax system to the lifecycle stage of companies, from inception to maturity in order to create a suitable environment for the emergence of national and regional champions."

Jean Kacou Diagou, founder and CEO of NSIA, head of the CGECI and of the FOPAO, Côte d'Ivoire

NSIA (Nouvelle Société Interafricaine d'Assurances) is an Ivorian banking and insurance group founded in 1995 by Jean Kacou Diagou, current CEO. The group owns more than 25 companies and is active in 12 West and Central African countries. Jean Kacou Diagou is also head of the Côte d'Ivoire employer federation (CGECI) and head of the federation representing employer organisations in West Africa (FOPAO).

Figure 14: Concern about over-regulation varies between countries

Q: How concerned are you, if at all, about over-regulation?



Over-regulation is perceived as a threat by more than two-thirds of global CEOs. In Africa, levels of concern vary from country to country – from 40% in Angola to 100% in Zimbabwe. To some extent this can be explained by the level of maturity of the regulatory environment in each jurisdiction.

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Regulatory change is a significant challenge currently facing companies in Africa and globally. Over 90% of CEOs in every market where we surveyed say that regulators influence their business strategy, but with the exception of CEOs in Rwanda, very few say that their government has done much to reduce the regulatory burden. On average, 69% of Africa CEOs say that over-regulation is a threat to growth. These trends ring true for the audit profession, not just in Africa but globally.

Kruger, Group CEO of the South Africa-based financial services group MMI Holdings, says that his company may understand the rationale behind regulations and government's objectives. However, he says, 'we also believe that these objectives have the best possible chance of a positive outcome when government and business work together in developing and implementing new regulations.' This is a view shared by many CEOs in Africa.

Another challenge facing many companies in Africa is the worldwide adoption of IFRS. Most countries around the world have now adopted IFRS as their primary reporting framework, although the US still uses US GAAP, notwithstanding many years of effort attempting to converge both frameworks. In Africa, IFRS was launched in South Africa and Ghana in the mid 2000's, while Nigeria commenced the adoption of IFRS in January, 2012. Other African countries have either adopted IFRS of are at early stages of adoption and implementation. Proponents argue that Africa has been possibly more receptive than other parts of the world to IFRS, notwithstanding that some countries have to contend with a lack of resources, weak or ineffective regulators and inadequate educational institutions.

The economic crisis and continued economic uncertainty have served as triggers for a fundamental review of the role of the audit. The audit profession has accordingly been forced to relook its strategies and business models due to these continued economic pressures. In addition, changes to standards, reporting and new rules of engagement between auditors, companies, audit committees, shareholders and regulators are on the cards. These will include matters such as additional reporting by auditors based on existing frameworks as well as wider assurance over non-financial aspects of corporate reporting.

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