

30 September 2012

# ***PwC Kenya*** Transparency Report 2012

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# *Introduction*

This Transparency Report is published in accordance with Article 40(1) and 45 (5)(e) of the Directive on Statutory Audit 2006/43/EC issued by The European Parliament and The Council of the European Union.

The Transparency Report is in respect of the financial year ended 30 June 2012.

The Transparency Report was approved by the firm's Assurance Leader and signed on its behalf by him.



**Peter Ngahu**  
Assurance Leader, PwC Kenya



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## ***Legal structure and ownership of the firm***

PricewaterhouseCoopers Kenya (“PwC Kenya”) is a partnership.

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# *Network arrangements*

“PwC” refers to the network of member firms of PricewaterhouseCoopers International Limited (“PwCIL”) and/or one or more of its member firms, each of which is a separate legal entity.

PwC member firms operate locally in countries around the world. Being a member of the PwC network means firms can use the PwC name and draw on certain resources, methodologies, knowledge and expertise within the PwC network. Each member firm also agrees to abide by certain common policies and maintain the standards of the PwC network. Each PwC member firm engages in quality control and compliance monitoring activities, covering the provision of services, ethics and business conduct, and the compliance with specific, strict standards for independence monitoring and protection.

PwCIL is an English private company limited by guarantee. PwCIL does not practise accountancy, provide services to clients or do business with third parties. PwCIL acts as a co-ordinating entity for PwC member firms in the PwC network. PwCIL develops and implements standards and policies and initiatives that create a common approach for member firms. PwCIL focuses on key areas like strategy, brand and risk and quality, including compliance with independence processes.

A member firm of PwCIL cannot act as agent of PwCIL or any other member firm, and it is only liable for its own acts or omissions and not those of PwCIL or any other member firm. PwCIL has no right or ability to control any member firm’s exercise of professional judgment.

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The governance bodies of PwCIL are:

- **Global Board**, who is responsible for the governance of PwCIL and for the oversight of the Network Leadership Team. The Board does not have an external role. Board members are elected by partners from all PwC member firms around the world every four years.
- **Network Leadership team**, which is responsible for setting the overall strategy for the PwC network and the standards to which the member firms agree to adhere.
- **Strategy Council**, which is made up of the leaders of the largest member firms of the network, agrees changes to the strategic direction of the network, in order to facilitate their consistent implementation.
- **Network Executive Team**, which reports to the network Leadership Team, coordinates the service lines and the key functional areas (such as Risk & Quality, Human Capital, Operations, Brand & Communication) across the network.

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## ***Governance structure of the firm***

The Country Management Committee, which is made up of eleven partners, is responsible for day to day management of PwC Kenya. The Country Management Committee is accountable to the Country Senior Partner.



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# *Internal quality control system*

The following is a summary of the system of quality control that PwC Kenya has adopted over its accounting and auditing practice.

## *Introduction*

Firms of the PwC network are members of, or otherwise connected to PricewaterhouseCoopers International Limited (“PwCIL”), an English private company limited by guarantee. Each member firm is a separate legal entity. All member firms are obliged to abide by certain common audit and quality control standards and policies approved by PwCIL and to conduct risk and quality reviews. PwC Kenya’s policies are based on these common standards and policies, which are supplemented to address local professional standards and regulatory requirements.

## *Quality Control Standards*

Compliance with International Standards on Auditing (“ISA”) requires PwC Kenya to have a system of quality control over its auditing practice. These controls are embedded as part of PwC Kenya’s day-to-day

activities. The quality control system is in compliance with International Standards on Quality Control 1 (ISQC1), Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, issued by the International Federation of Accountants (IFAC). The IFAC standards and requirements and, therefore, PwC Kenya’s quality control system, encompass the following six elements of quality control:

1. Leadership Responsibilities for Quality within the Firm
2. Ethical Requirements
3. Acceptance and Continuance of Client Relationships and Specific Engagements
4. Human Resources
5. Engagement Performance
6. Monitoring

### *Leadership Responsibilities for Quality within the Firm*

PwC Kenya’s leadership is committed to audit quality and has established a firm culture embracing high standards in independence and professional ethics. This leadership is embedded

throughout the detailed policies endorsed by leadership, including ethical, human resources and engagement performance discussed below. It is also demonstrated by the dedication of resources to quality. There is a partner responsible for risk management and quality control relative to PwC Kenya's client service operations.

### ***Ethical Requirements***

#### **Integrity and Objectivity**

The reputation and success of PwC Kenya depend on the professionalism and integrity of each and every partner and employee. All PwC Kenya partners and staff are expected to uphold and comply with the standards developed by the PwC global network and PwC Kenya. PwC Kenya's management monitors compliance with these obligations by PwC Kenya's partners and staff.

Upon hiring or admittance, all staff and partners of PwC Kenya are provided with a copy of the PwC Global Code of Conduct. They are expected to live by the values expressed in the code in the course of their professional careers.

#### **Independence**

PwC Kenya has adopted the PwC Global policies and related rules regarding independence and compliance, complemented when necessary by more restrictive local

professional and regulatory rules. PwC Kenya strictly monitors compliance with regulatory, professional, and PwC independence requirements related to financial interests in and business and service relationships with clients.

### ***Acceptance and Continuance of Client Relationships and Specific Engagements***

PwC Kenya has implemented a process to identify acceptable clients based on the PwC global network's proprietary decision support systems for audit client acceptance and retention (called Acceptance and Continuance ("A&C")). A&C facilitates a determination by the engagement team, business management and risk management specialists of whether the risks related to an existing client or a potential client are manageable, and whether or not PwC should be associated with the particular client and its management.

### ***Human Resources***

PwC Kenya partners and staff regularly receive a thorough orientation to the culture, values and core attributes of PwC – Quality, Trust, Teamwork, Excellence and Leadership. PwC Kenya aims to recruit only high quality staff that can operate as accounting and other experts in support of audits and who share in PwC Kenya's strong sense of responsibility for auditing. There is a robust assessment of the quality of those people we hire from universities.

## Professional Development

Training and development is an ongoing process. Training starts when a person is hired and continues throughout his or her career. PwC Kenya's people participate in a variety of local, regional and international formal training courses and are also trained through on the job coaching and supervision.

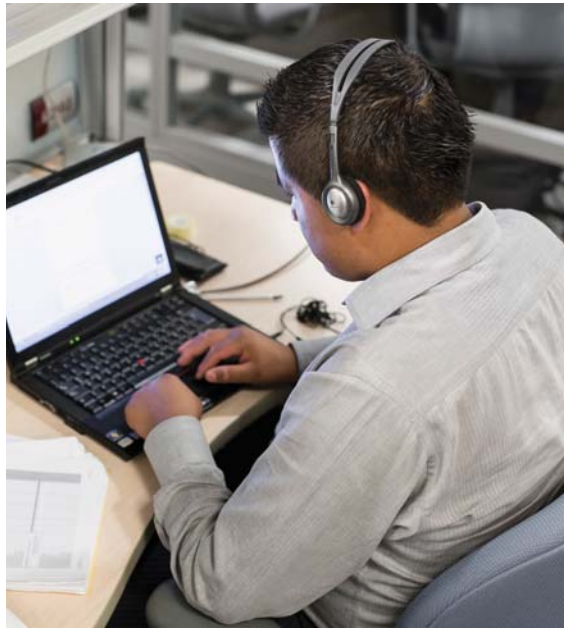
## Supervision and Direction

Each engagement partner is responsible, in consultation with others as appropriate, for staffing engagements with partners and staff that have the professional competence and experience required in the circumstances. Further, each engagement partner is ultimately responsible for determining the extent of direction, supervision and review of the work of more junior staff to who work is delegated.

## Engagement Performance

### Consistent Global Methodology

PwC Kenya uses a consistent audit methodology and process for audit engagements. The methodology is enhanced as necessary to respond to the changing environment. All audit engagement partners and staff receive ongoing training in this methodology.



## Comprehensive Policies and Procedures

To complement the Global policies and procedures, PwC Kenya has comprehensive policies and procedures governing local accounting and auditing practice that are constantly updated to reflect new professional developments and operating environment, and to address emerging issues, as well as the needs and concerns of the practice. These policies cover not only professional and regulatory standards, but also reflect the guidance that PwC provides to its professionals about how best to implement them. They are available

in electronic files and databases, are regularly updated or supplemented for all current developments and are accessible remotely at any time.

### **Risk and Quality (R&Q)**

Consultation is a key element to quality control. PwC Kenya has formal protocols setting out the circumstances under which consultation is mandatory. PwC Kenya is supported by a Technical Department that will track new developments in accounting and auditing and provide updates to the appropriate professional staff. PwC Kenya consultative culture means that our engagement teams will regularly consult with experts and others beyond those that are formally required.

### **Monitoring**

PwC Kenya is responsible for monitoring the effectiveness of its quality control systems which includes carrying out, or arranging to be carried out on its behalf, independent reviews both at the management level of the Assurance practice's systems and procedures (known as Quality Management Review – QMR) and at the individual engagement level (known as Engagement Compliance Reviews) collectively referred to as the “Quality Review” process. The independent Quality Management Review and Engagement Quality

Reviews are undertaken so that the firm and significant engagements are reviewed at least every three years. All assurance partners must have at least one of their engagements reviewed every five years. The Quality Review process also involves periodic testing of the effectiveness of PwC Kenya's quality controls in functional areas such as hiring, training, advancement and independence.

Quality monitoring is an integral part of the PwC Kenya's continuous improvement program. PwC Kenya constantly evaluates inputs from formal programs such as this and a variety of informal sources in an ongoing effort to improve policies, procedures and the consistency of the quality of work. Instances of failure to meet performance standards are treated seriously and the partner responsible is counselled to improve performance and appropriate steps are taken to fully encourage improvement including, where appropriate the imposition of financial penalties.

Management of PwC Kenya believes that the quality control environment described above complies with all applicable regulations and provides a reasonable basis for believing that statutory audits carried out by PwC Kenya consistently meet the required quality standards.

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## *External inspections*

PwC Kenya is eligible to undertake statutory audit work by virtue of its authorisation by the Institute of Certified Public Accountants of Kenya (ICPAK), the statutory body established for the regulation of the profession of accountancy in Kenya.

From time to time, ICPAK undertakes an inspection of the quality of PwC Kenya's work as statutory auditors. ICPAK considered the outcome of its inspection undertaken during 2007 and confirmed the continuance of PwC Kenya's audit registration.



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## ***Public interest audit clients***

During the period covered by this Transparency Report, PwC Kenya has signed the audit report for Kakuzi Limited that has transferable securities listed on the Main Market of the London Stock Exchange.



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# *Independence procedures and practices*

## *Organisation*

PwC Kenya has a designated partner Richard Njoroge, (known as the “Partner Responsible for Independence” or “PRI”) with appropriate seniority and standing, who is responsible for providing appropriate support and processes such that partners and staff are knowledgeable about independence matters and that they take the actions required of them by the firm’s independence policies and supporting guidance. The partner is supported by a team of independence specialists.

## *Policies and guidance*

The PwC Network Independence Policy, which is based on the International Ethics Standards Board for Accountants (‘IESBA’) Code of Ethics for Professional Accountants, contains minimum standards with which PwC member firms have agreed to comply, including processes that are to be followed to maintain independence from clients, when necessary.

The independence requirements of the United States Securities and Exchange Commission and those of the Public Accounting Oversight Board of the United States are, in certain instances, more restrictive than the firm’s policy. Given the reach of these requirements and their impact on PwC Network Firms, the policy identifies key areas where these requirements are more restrictive.

PwC Kenya supplements the PwC Network Independence Policy as required by local regulations.

The firm’s independence policy covers, among others, the following areas:

- personal and firm independence, including policies and guidance on the holding of financial interests and other financial arrangements, e.g. bank accounts and loans by partners, staff, the firm and its pension schemes;
- non-audit services and fee arrangements. The policy is supported by Statements of

Permitted Services (“SOPS”), which provide practical guidance on the application of the policy in respect of non-audit services to assurance clients; and

- business relationships, including policies and guidance on joint business relationships (such as joint ventures and joint marketing) and on purchasing of goods and services acquired in the normal course of business.

## **Training and confirmations**

PwC Kenya provides all partners and staff with annual or on-going training in independence matters. Training typically focuses on milestone training relevant to a change in position or role, changes in policy or external regulation and, as relevant, provision of services. Partners and staff receive computer-based training on PwC Kenya’s independence policy and related topics. Additionally, face-to-face training is delivered to members of the practice on an as-needed basis by PwC Kenya’s independence specialists and risk and quality teams.

PwC Kenya requires all partners and staff, upon joining and at least annually thereafter, to confirm their compliance with all aspects of PwC

Kenya’s independence policy, including their own personal independence.

In addition all partners confirm that all non-audit services and business relationships for which they are responsible comply with policy and that PwC Kenya’s processes have been followed in accepting these engagements and relationships. These confirmations serve two primary purposes: to identify any threats to independence that may have arisen; and to provide a periodic reminder of PwC Kenya’s independence policies and procedures. These annual confirmations are supplemented by periodic and ad-hoc engagement level confirmations for PwC Kenya’s clients.

## **Independence Systems**

As a member of the PricewaterhouseCoopers network, the firm has access to a number of global systems that assist PwC member firms and their personnel in complying with independence policies and procedures. These systems include:

1. The Central Entity Service (“CES”), which contains information about corporate entities including public interest audit clients and SEC restricted clients and their related securities. CES assists in determining the independence



status of clients of the firm before entering into a new non-audit engagement or business relationship. This system also feeds the Global Portfolio System (“GPS”);

2. The GPS which facilitates the pre-clearance of publicly traded securities by all partners, directors and practice managers before acquisition and records their subsequent purchases and disposals. Where a member firm wins a new audit client, this system automatically informs those holding securities in this client of the requirement to sell the security where required; and
3. Authorisation for Services (“AFS”) which is a global system that facilitates communication between a non-audit services engagement leader and the audit engagement leader, documenting the potential independence threats of the service and proposed safeguards, and acts as a record of the audit partner’s conclusion on the acceptability of the service.
4. PwC Kenya also has a number of local systems which include:
  - A rotation tracking system which monitors compliance with PwC Kenya’s audit

rotation policies for engagement leaders and other key audit partners involved in an audit; and

- A database that records all approved business relationships entered into by PwC Kenya. These relationships are reviewed on a six monthly basis to ensure their ongoing permissibility.

### ***Internal reviews of independence procedures and practices***

Our independence procedures and practices are subject to internal review on an ongoing basis. This is achieved through a monitoring and testing programme, which includes the following:

- Quality control reviews of engagements to confirm compliance with risk management processes, including independence (as described in Section 5.2.6);
- Personal independence compliance testing of a random selection of partners, directors and managers;
- Compliance testing of independence controls and processes; and



- Annual assessment of PwC Kenya's adherence with the PricewaterhouseCoopers network's independence risk management standard.

In addition, policies and guidance are reviewed and revised when changes arise such as updates to laws and regulations, when PwC Network policies and guidance change or as a result of the above reviews and of our monitoring and testing programme.

The results of PwC Kenya's monitoring and testing are reported to its management on a regular basis with a summary reported to them on an annual basis.

The investigations of any identified violations of policies also serve to identify the need for improvements in PwC Kenya's systems and processes and for additional guidance and training.

### ***Disciplinary policy***

PwC member firms are required to have disciplinary mechanisms to promote compliance with independence policies and processes and to report and address any violations of independence requirements.

A partner or staff member may be subject to a fine or other disciplinary action for a violation of independence policy.

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# ***Continuing professional education of partners and staff eligible for appointment as statutory auditors***

PwC Kenya maintains up-to-date reference materials which are accessible by all assurance practice partners and staff. These cover audit policy, procedure and methodology, and include a library of local and international accounting, auditing and ethical standards. To support and keep staff and partners' knowledge up to date, partners and staff receive regular communications on technical and regulatory topics as they arise. Support is available to partners and staff on auditing, accounting and regulatory requirements, including access to subject matter experts in specialist industries.

PwC Kenya's internal training curriculum provides a broad range of technical solutions as well as business and personal skills programmes. There are also specialised training programmes available for those with clients in specialist industries. Through their participation in the

internal objective setting and related performance appraisal processes, engagement leaders assess their on-going personal development needs and identify any necessary development activities, including in relation to quality. Unsatisfactory work results in reduced performance reward.

The PwC Global Code of Conduct sets expectations of behaviour and values. Mandatory ethics and business conduct training covers the Code of Conduct as well as ethical, accounting, auditing and other regulatory matters.

PwC Kenya also monitors compliance with Continuing Professional Development requirements, including the completion of mandatory training programmes, so that PwC Kenya's services are delivered by individuals who have the right experience and – where required – are qualified under relevant legislative and other applicable requirements.

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## *Financial information*

Professional fees in relation to PwC's audit of the annual and consolidated accounts of Kakuzi were Shs 6,244,000.

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# Remuneration

Partners are remunerated out of the profits of PwC Kenya. Audit partners are not permitted to be incentivised, evaluated or remunerated for the selling of non-audit services to their audit clients.

The final allocation and distribution of profit to individual Partners is made by the Country Leadership, once their performance has been assessed and the annual financial statements have been approved.

Each Partner's remuneration comprises three interrelated profit-dependent components:

- **responsibility income** – reflecting the Partner's sustained contribution and responsibilities;
- **performance income** – reflecting how a Partner and their team(s) has performed; and
- **equity unit income** – reflecting the overall profitability of PwC Kenya.

Each Partner's performance income is determined by assessing achievements against an individually-tailored balanced scorecard of objectives, based on the Partner's role and responsibilities. There is transparency among the Partners over the total income allocated to each individual.

