

Insight Newsletter

Preparing for Accelerated growth

Launching of Insight

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I would like to welcome you to our very first Issue of *Insight Newsletter*! This is a short, easy to read newsletter that produces articles of general interest for you, the senior manager, with responsibilities of running a business.

PwC Zambia, has in the recent past rolled out Risk Assurance Solutions services. These services focus on the core risks that affect your business, from IT, Processes, Project management, Corporate Governance and Treasury management.

These services seek to improve the resilience of your business by helping you make fully informed decisions. We bring together specialist disciplines and commercial expertise in a unique way. The objective really is to provide you with insights and independent advice that will give you confidence in building and safeguarding your business. We are currently focusing on IT assurance, Process assurance, Project management (for you with a large number of ongoing significant projects and corporate governance.

Insight Newsletter, our intention is to focus on topics around the general theme of Risk Assurance. Our Aim is to share information and best practices in managing risk.

So why risk? Simply because Risk is a fact of life. In today's era of complexity and uncertainty, executives need strategies and tools to manage risk better as they grow the business.

Why now? Well businesses in Zambia are going through unprecedented change. And with increased focus by investors looking for new markets, we are facing unprecedented competition.

Insight Newsletter introduces our Risk Assurance services,. We also look into internal audit with two articles, including one from Mwenya Chitalu, the President of the Institute of Internal Auditors – Zambia Chapter.

Tonderai, a manager in our Assurance practice, gives us his insight into the Telcoms industry and its interaction with SME's. All these are intermingled with items that you should find interesting. If you are reading this on your laptop or tablet, we have included various links to our website, where you have access to further in-depth information.

I would appreciate any feedback you would have on how to improve the newsletter. This is our first edition. Our second, third, fourth, and so on should be getting better and better! Send your comments to insight.zambia@zm.pwc.com

Kimani Kariuki



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Insight Newsletter is a short easy to read newsletter that produces articles of general interest for you, the senior manager. It seeks to provide insights around risk management matters affecting your business.

Risk Assurance Solution services

A solution that is relevant to all business and business managers

Directors and management alike have continued to dedicate significant resources to managing risks in their businesses



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In this time of uncertainty in the business environment, deciding on whether to make investments or how to manage current investments is taking a large portion of management's time.

This time is spent in looking after risk and determining how to manage and control this risk, specifically to maximise returns and minimise exposure in a particular investment or group of investments. As PwC, we have seen management allocate a large part of their resources to putting controls in place, including having large internal audit departments and having a score of experts to look after large risk exposures.

While all these measures are important and play a major role in achieving the objective of managing risk exposures, one common theme is that they are looking at the company's challenges from within. That is, they attempt to manage the risks from their perspective of risks, as seen by the management, with the experience of that particular industry and company.

If we are to look through the various personnel employed to specifically manage risk in a particular industry, we will note that they were brought on board with relevant experience (of

the industry) or were promoted from within. This lends its self to the thinking that management keep in mind the experience of the person in relation to the company and the fact that they are likely to know the company and its strengths and weaknesses very well.

While there are substantial benefits in ensuring that the people responsible for risk have particular experience of the company, it is normally forgotten that a broad experience in managing risk, irrelevant of the particular industry, is also of major importance.

This is simply because in having a wider range of experience, the person is not bound by historical actions taken at the company and why certain procedures and practices were put in place in the first place. A risk individual with a broad risk management experience will be thinking "outside of the box". He will be looking at the management of that risk keeping in mind various scenarios in various industries, which will ensure that the broad risk factors are addressed and minimized to the best possible extent.

It is with the above in mind, that we at PwC Zambia, introduced our risk assurance services. We are in an exclusive situation where we deal with companies in various industries and have the advantage of advising companies on their risk management policies as "outsiders".

We take advantage of our experience in these varied industries, and the varied scenarios and combine this with local culture and local economic policies to give their implication on a company and a particular industry.

We are not restricted by certain views in a company or the history of why a certain measure was taken or why certain procedures were put in place. We act as fully independent advisers and provide the best possible options to the management in terms of how to address a risk or certain group of risks so that the management has a comprehensive list of options available to them to address specific risks.

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Corporate governance **Stepping up**

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PwC Business School will be hosting Mervyn King, the Corporate Governance Guru on Wednesday, 15 May 2013, at the Norfolk Hotel, Nairobi, Kenya. The event is open to Board Directors, members of Board Audit Committees and any other interested party that is involved with or responsible for corporate governance.

For costing and logistical information, please contact:

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The IIA and its affiliates worldwide is the internal audit profession's global voice, recognised authority, acknowledged leader, chief advocate and principal educator

The Nature of Modern Internal Auditing

It has been said that the measure of human beings on earth is not what they take with them, but what they leave behind. Ideas shared, concepts developed, practices and processes designed, integrity modeled, potential seen and recognised, visions brought to fruition, colleagues led, protégés mentored, and examples set. With this hindsight, internal auditing has established itself as distinctive unique discipline with a far broader focus as modern internal auditing practice is today.

The history of internal auditing shows that the profession has evolved systematically, mirroring changes in the way commerce is conducted and managed. Internal Auditing as it is known today began to evolve in 1941 when the Institute of Internal Auditors (IIA) was formed. Only then did internal auditors expand the scope of internal auditing to appraising all operations of the enterprise.

In Zambia, the IIA is represented by the Zambian Institute of Internal Auditors (IIA Zambia) which has been affiliated with The IIA since 2 June 1998. Membership in Zambia has steadily grown from around 35 in the year 2007 to about 150 as of September 2012. Worldwide membership is in excess of 170,000 in more than 160 countries.



The IIA and its affiliates worldwide is the internal audit profession's global voice, recognised authority, acknowledged leader, chief advocate and principal educator.

Members work in internal auditing, risk management, governance, internal control, information technology audit, education, and security.

Throughout the world, internal auditing is performed in diverse legal and cultural environments; within organizations that vary in purpose, size, complexity and structure; and by persons within or outside the organisation. People, new and without sufficient orientation of the internal auditing

profession, sometimes have trouble distinguishing between internal auditing and the external auditing profession. So what is the internal audit profession all about?

What is Internal Auditing?

The IIA defines Internal auditing as '...an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organisation accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of

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The Institute of Internal Auditors, Zambia Chapter is a non-for profit organisation incorporated under the Societies Act and is affiliated with the Global Institute of Internal Auditors.

The institute comprises of individual and corporate members all of whom are either actively involved in Internal Audit or share an interest in the profession. The institute is tasked with managing the interests of internal auditors in Zambia.

IIA Zambia desires the continued spearheading of its strategic plan for a robust chapter in order to deliver the mandatory service to its members and the internal audit profession. The institute continues to look for volunteers to sit on its various committees.

If you are interested in volunteering for any of the committees, or simply would like to know more about your local chapter of the institute, please contact

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The Nature of Modern Internal Auditing

risk management, control and governance processes.’

The IIA’s definition of internal auditing, which is recognised and accepted around the world, demonstrates that internal auditing is quite different from accounting and external auditing. The scope of internal auditor’s work is broad and may cover various business functions within an organisation.

Examples of the areas are the efficacy of operations, the reliability of financial reporting, safeguarding assets, and compliance with laws and regulations. Implicit in this definition is that the results of the internal auditor’s work is administratively for the organisation’s management and functionally for the board of directors and other stakeholders for listed companies, corporate social responsibilities and pro bono services.

Furthermore, to perform their roles and responsibilities, internal auditors must have collective expertise in risk

management, internal control, governance, operations, compliance, fraud, ethics, and information technology. Although some internal auditors do have a chartered accountancy designation, such licensing is not a prerequisite for internal auditors.

The globally recognised certification for internal auditors is the Certified Internal Auditor (CIA), which is held by over 94,000 internal auditors around the world.

The IIA currently has over 500 examination sites established around the globe and the closest geographical locations to Zambia are in Lusaka at ICT Resource Foundation on Great East Road opposite the University of Zambia main entrance, and in Harare and Lilongwe.

As a self-regulated profession, internal audit practitioners conform to The IIA’s globally recognised International Standards for the Professional Practice of Internal Auditing and abide by the

definition of internal auditing. Internal Auditing is a valuable resource to an organisation’s executive management, governing bodies (board audit committees), and other stakeholders in helping them achieve their business goals and objectives as well as strengthen internal controls, risk management and governance. This might be a lot to ask from one organizational resource, but for Internal Auditors — it’s all in a day’s work.

In our next article interaction we will explore in detail the differences between Internal Auditing and External Auditing as well as the emerging concept of the combined assurance model.

In later articles of this series, we shall delve into the roles of internal audit in risk management, controls and governance processes.

Mwenya Chitalu is the current president of the Institute of Internal Auditors – Zambia and Certified Internal Auditor.

Telecommunications, an interesting market case study

Tapping the potential of small to medium sized businesses in the telecommunication sector

The fast changing business environment in the global mobile telecommunications industry in the twentieth century, has seen the emergency of SMEs to support the industry growth. As shown by some studies, SME’s segment represents 45% of the global market value of telecommunication services.

As revenue from traditional sources, such as mobile phone calls, is on the decline, mobile telecommunication companies are looking for opportunities in adjacent markets such as mobile phone banking. These opportunities are generally targeted

through ICT services for businesses, which is nothing new. More so, recent trends shows ICT service offerings, especially in the SME segment, is a credible possibility for operators. By innovating within the sales channel model, operators can use partnerships to acquire the technical and commercial expertise necessary to unlock greater value from ICT services. Any operator with ambitions to lead in mobile telecommunications should not overlook SMEs. In the past, innovation has been focused at the product level but success lies in selling and creating customer relationships around a compelling proposition. Operators that

take another look at their indirect sales channels have the opportunity to challenge the competition and make a meaningful contribution to their business growth.

Businesses, on average, spend US\$630billion on telecommunications services globally. But that amount is not distributed evenly with multinational customers having an annual communication expenditure of around \$100m plus and so can demand dedicated account management from a direct sales force. These kinds of accounts represent only part of the opportunity. Based on some research, SMEs can represent up to 45% of the total market value for business-to-business telecommunication services. That is more than any other ICT segment.



Major characteristics that make tapping into the SME opportunities difficult for large mobile telecommunication operators are:

- The SME market is highly fragmented. For example market research has shown that, there are approximately 14 million SMEs in the UK alone, and more than 50% of them have fewer than nine employees. This is also similar in Sub Sahara Africa where most SME's are one-man owned and managed. Managing a direct sales force to target this type of segment is difficult. And it is uneconomical, because having a meaningful presence in the market requires investing significantly to get the right density and geographic spread of sales people.
- SMEs prefer to do business with other companies of similar size and to have face-to-face relationships. They believe they have the opportunity to negotiate the best deals or prices from sales staff with access to reliable information and a local contact they can turn to for quick, uncomplicated resolutions of their service requirements. While consumers value the recognised brand name of a major telecommunication operator, many SMEs are reluctant to be treated as the anonymous customer account number of a 'big business' service provider. Being relatively small in size and regional in focus, independent telecommunication dealers are well placed to build and sustain face-to-face relationships with SMEs. This position makes the indirect channel a

critical sales asset for mobile telecommunications companies operating in the SME market.

Operators with an ineffective indirect channel complain of a lack of loyalty within their partner base, high churn and channel conflict with their direct sales resources. For SME's to drive the growth of new business, they need adequate and appropriate commercial incentives, operational support and financial investment. Clearly defined tiers based on key performance indicators – like connections, churn, average revenue per user (ARPU) and affiliation – should focus dealers' behavior and give clear incentives for improving performance.

Non financial benefits – like product training, marketing collateral or even transferring subscriber management from the direct channel to the partner – are important as well. Non financial benefits create a clear differentiation among the tiers and the motivation to progress up the tiers. And they motivate partners to become more tightly committed to one operator as opposed to a general partner of many.

Customer ownership within the channel and partner autonomy are critical elements of a genuine win/win relationship, yet operators must retain control and influence within the channel. Operators must have accurate, timely and complete management information, including base size, acquisitions, churn and performance of small dealers when working through a distributor. With that information, operators can properly manage channel

performance, can identify partners' behaviour and activity that may not be aligned to the win/win ambition and can take appropriate action.

The relationships of smaller dealers working through distributors should be visible to operators so that they can monitor the performance of the whole channel, end to end. An obvious, but critical, step is to align the strategic goals of the operator with its partners. Operators hope to offset the declining revenue from traditional voice and data services by expanding into adjacent ICT sectors.

Having identified this opportunity, many of their channel partners already have used their existing relationships with SMEs to expand into unified communications, cloud services or information technology support.

An effective channel strategy should identify these converged dealer partners and should provide appropriate support and investment – whatever is required to help make these partners a 'one-stop shop' for the ICT needs of SMEs.

More and more companies are appreciating the contribution that SME's make to the overall success of the business... Telecommunication companies are no exception



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What is the state of Zambia's internal audit profession?

I once asked a Managing Director in Zambia the question, 'How do you know that the information you are using for decision making is complete and accurate?' He replied, 'Because of Samson.' I have met Samson a number of times. He was always busy running around talking to different people on different matters. Everyone respected him and he had access to every office. When the company's senior management met with their external auditors, he was invited to the meetings and every so often, the management team would look at him for a nod of confirmation or affirmation. He did not have a job title, but he was their internal audit function.

In making decisions, Executives and Directors rely heavily on the information they receive through business lines and individuals like Samson. Different businesses have different names for such a function, but the objective is the same: internal audit is central to ensuring that business lines produce timely, accurate, complete and relevant information. There is a direct correlation between entities having a strong function such as an internal audit department and the ability of their directors and senior managers to make relevant and timely decisions.

Traditionally, internal audit functions tended to focus on operational or tactical elements of the business and shied away from strategic elements. For example, you might find a bank internal auditor highlighting how many branches are not fully compliant with KYC regulations rather than reporting the flaws in the monitoring controls implemented by operational heads. It's time to ask whether the value provided by internal audit really benefits all stakeholders.

A recent survey showed that in practice, internal audit functions invest time and resources in assurance activities, primarily, assurance over internal controls and IT risk and security. It further stated that a secondary focus area for many internal auditors is fraud prevention with corporate governance commonly ranking third. However, the same survey says that board members and other stakeholders identify assurance and fraud prevention as the top priorities for internal



Every organization has come to appreciate the significance of having an independent person who can give senior management added comfort on information and controls

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audit, while strategic risk management typically ranks third. This variance in priorities highlights a potential misalignment between internal audit practitioners and their stakeholders—but it doesn't have to be fatal one. As a professional auditor, I believe that expectation gaps can be addressed and proactively managed.

These surveys also show that this misalignment between priorities and expectations is not the only challenge facing the internal audit profession. In its State of Internal Audit Survey 2012, Thomson Reuters surveyed 1,500 internal audit practitioners globally. In our own report, Aligning internal audit: 2012 State of the internal audit profession study, we surveyed a similar number of executives, including not only chief audit executives but also key stakeholders like executive management, audit committee chairs and Board members.

Both surveys show that internal audit functions are evolving and diversifying, with their responsibilities expanding and challenges deepening. Skills are needed, as well as adequate budgets and leadership support to meet the growing need for strategic insight.

Our publication shows the rising importance of risk management and the increasing expectations of internal audit's contribution to the effort to manage risk effectively. These surveys indicate that the main function of

internal audit should be to add value and improve the operations of an organisation. Without internal audit, organisations cannot determine whether their risk management, controls and governance processes are working effectively and giving them the tools they need to thrive. By having a firm grip on risks, controls, standards and regulations, internal audit can provide a better service to an organisation through useful information, a more efficient and effective guide to operational risk and a greater understanding of legal and regulatory risk.

We should ask whether Zambia's internal audit profession will rise to the challenge of being relevant in these changing times. The roles and responsibilities of internal audit are vital to an organisation. However, based on changes in the business environment, these roles are ever-changing.

Share holders, board members and management are putting more pressure on internal auditors to play an active role in evaluating and dealing with risks, managing fraud and in corporate governance. Internal audit also needs to develop a stronger relationship with the compliance function within the organisation. Governance, risk and compliance activities are interconnected and rely on a common base of information, processes and methodology.

It's clear that the pressure is rising on Boards of Directors and Board Audit Committees in particular. Local and global mazes of financial challenges and potential pitfalls, advancing globalisation and rapid technological progress create a riskier environment of complexity, uncertainty and sudden change. Now, Directors and senior executives need to make decisions that are optimal in a local, regional, African and global context. Internal audit functions should be there to help.



Board of Directors and Board Audit Committees in Zambia have made significant strides in formalising the independent control function, now it's time to demand higher levels of assurance from these teams

From page 2

Risk Assurance Solution services

Companies can always benefit from getting an independent person with wide industry experience to give feedback on their processes and controls

This can be developed even further through our experts advising on a particular scenario. Various companies have retained PwC firms across the world on an ongoing basis where we form a regular part of their risk or audit committee meetings. We are there as the risks manifest, which allows the company to take advantage of our wide experience on a continuous basis.

The objective is not only to provide a business with wide and varied experience, but also to ensure that the company does not incur fixed costs for personnel employed to address risk. We provide input into risk situations as they occur thus allowing a company to manage their costs at the same time as dealing with risks in the best possible way.

Various examples of our risk assurance services are extremely broad and could be assisting with internal audit plans, implementation of these plans, regular review and comments on the findings of these audits, assurance on various processes, review and assurance on plans and projections, assistance with business continuity projects and so on.

We have assisted various global and local companies in their growth and management of risks to make them efficient and maximize their shareholder returns.

Nasir is the Country Senior Partner of PwC Zambia. He has vast experience in mining and financial services and also provides internal audit services.

Managing sales campaign and consumer promotion risks

Sales promotions are a popular way to attract customers and build brand awareness. In the process of designing a promotional strategy, however, many organisations fail to adequately assess the potential risks involved

Increasingly, companies are rolling out promotions that make it easier for consumers to participate. A short text message, for example, is a lot easier than filling out a form and submitting it at a designated point. Form-filling might make sense for entities that are in the business of selling paper-based products like magazines and newspapers but for the most part, promotions are becoming more sophisticated.

Companies have moved to awarding more and more prize in the form of mobile money or airtime by embracing technological advancements. This is a smart move because it increases consumer participation and facilitates targeted outreach. These awards also result in a higher payout ratio and hence a higher adoption rate.

Companies offering promotions have always faced challenges with regard to distributing prizes. In some jurisdictions, such as Kenya, the regulatory body for promotions (and other ‘betting games’) requires that any monies not awarded to consumers must be paid to them. Companies therefore prefer to award prizes to consumers directly, so promotional strategies that improve outreach to consumers are very attractive.

The proliferation of promotions in recent years means that consumers now have more opportunities to participate and win and brands have had to up the ante to attract an increasingly savvy population. Brand loyalty, ease of play, and pricing as well as the size or appeal of the reward all influence consumer decisions.

In my view, these factors don’t matter much if a consumer believes that the winners are pre-selected and that their participation earns them little chance of winning. In promotions, trust has become an issue.

Consumers need to know that the rules and process give them a fair chance to win.

To avoid damaging your company’s reputation through a mismanaged promotion, companies need to introduce control mechanisms that mirror any other significant business process. Audit trails and reconciliations may need to be modified to accommodate electronic records. Checks and balances and controls are more likely to be automated, which requires different skills and tools.



Risk management around a promotion is not just about the logistics of the draw; it starts with determining the promotion structure and how appropriate it is, participation of all suppliers and their understanding of how they contribute to the risk profile, a well planned execution; and timely taking stock and debrief meetings

Depending upon technology owned by a third party like a mobile operator increases risk, and many promotions have stumbled following an operator's failure to remit data or meet contractual obligations.

In a case in East Africa, an entity was required to pay ten times the budgeted prize money because of a transposition error in an SMS message! In technology-based promotions, the authenticity of the source of the code is not checked by the system if a valid code is sent.

Promotions may also increase the risk of fraud. Theft of promotional materials in advance, during the printing or storage phase, and authentic codes may be released or submitted before legitimate consumers get a chance to play. We have also seen a situation where the process of selecting the winners was manipulated by adding a macro to the system.

Many promotions are now being modelled with limited direct customer interface, which provides an opportunity to validate the winners as they present themselves, but also means that the volumes of winners processed is limited. It is a balancing act between numbers of participants and control.

In several cases, we have seen innovative fraudsters send messages/rules very similar to authentic promotions soon after the legitimate one is launched with the intention of confusing and scamming consumers. Fraudsters have even developed counterfeit goods and marketing materials, infiltrating the promotion among both players and employees.

Companies can evaluate these risks and seek professional advice to help manage them. But one of the most significant risks to organisations using promotions is the failure to measure return on investment. The impact is difficult to measure, perhaps because accounting processes do not isolate or report the impact of a single product. Impact should be evaluated during and after the launch. It's also important to measure the data collected and establish ownership of the risks and controls early.

Promotions are becoming more and more intricate, as innovations and technology improve the consumer experience and value. So if you think things are complicated now, watch this space.

Promotions can leave organizations exposed to the risk of fraud where high value prizes are awarded to undeserving people resulting in reputational damage that can take years to rebuild

PwC Zambia is offering Risk Assurance services focusing on:

Process Assurance:

Ensuring that your processes are meeting their control and risk management objectives

IT and Project Assurance:

Supporting management teams to manage all project ongoing in the business to ensure synergies and timely completion

Corporate Governance, Risk and Compliance

Supporting directors and senior management in their obligations to meet stakeholder expectations that the businesses entrusted in them will continue for the foreseeable future, including matter such as business resilience

Internal Audit:

Bringing it all together either by supporting an internal function or through out-sourcing

For more information, please contact:

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