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African Footprint

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Audit / Tax / Advisory

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Inside this Issue

Environmental Social and Governance Reporting in Kenya	3
South Africa: Economic Outlook	6
The Future of Audit	10
Crowe Tax & Advisory (JHB) (Pty) Ltd welcomes Ferdie Schneider	12
A Welcome Visit to Senegal	13

Environmental Social and Governance Reporting in Kenya

Environmental, social, and governance (ESG) initiatives have become critical strategic priorities for businesses across all levels, not just limited to the board.

This is due to increasing emphasis and demand from regulators, investors, employees, and other stakeholders. ESG reports are now recognized globally as significant indicators of a company's non-financial performance. Research suggests that there is a positive correlation between strong ESG performance, better financial performance, and higher returns.

Globally it is agreed that corporations have a greater responsibility for the environmental and social impacts of their organizations. In 2013, the Sustainable Finance Initiative (SFI) was made possible thanks to the Vision 2030 framework. Kenya's banking industry, through their umbrella body the Kenya Bankers Association, adopted the Sustainable Finance Guiding principles aimed at bringing business goals together with the socio-environmental concerns and the country's development priorities. The SFI principles focus on inclusive growth, economic viability, social and environmental risk management, resource scarcity and business ethics and values. The Capital markets Authority (CMA) and Nairobi Securities Exchange (NSE) have led the movement on ESG and sustainability. In 2017 the Capital Markets Authority's, Stewardship Code for Institutional Investors (Stewardship code) was gazetted; it aimed at encouraging companies to incorporate social, environmental and ethical and initiatives in their investment processes.

Nairobi Securities Exchange ESG Disclosures Guidance Manual

In alignment with global trends, the NSE recognized a widespread local understanding of business sustainability and ESG related matters; however they realized that there is a lack of sustained capacity building on how organizations can include ESG in their strategies and disclosure of ESG performance in a consistent, transparent and principle based manner that satisfies stakeholder expectations. As a result in 2021, they published the ESG Disclosure Guidance Manual (ESG Manual) in collaboration with the Global Reporting Initiative (GRI). The ESG manual provides listed companies a manual for gathering, analyzing and disclosing publicly ESG information about their company operations. It is aimed at providing a pathway by which Kenyan companies can gradually adopt ESG strategies in order to improve performance management and to adhere to global ESG best practices.

The ESG manual covers the ESG reporting process and includes -

- The ESG reporting principles
- The ESG reporting boundary
- ESG reporting process
- ESG Reporting requirements
- Publishing the ESG report

Benefits of ESG Reporting

It should be noted that by providing information that has grown to be relevant to investors and promoting effective capital allocation, the adoption and promotion of ESG reporting by NSE listed companies improves the credibility and integrity of the capital markets in Kenya. ESG reporting leads to better financing opportunities for companies, in that organizations that demonstrate responsible investment practices are able to access capital from sustainability conscious investors such as Development Finance institutions (DFIs) and Private Equity Firms. In addition, investors can assess and preferentially invest in issuers that demonstrate better ESG linked financial performance resulting in more efficient financial allocation. Measuring and reporting ESG performance enables organizations to achieve operational efficiencies by optimizing energy and raw costs in production. Product innovation is facilitated by a multifaceted perspective of corporate value, which enables consideration and control of the underlying environmental and social implications of goods and services.



Challenges to Effective ESG Reporting in Kenya

The benefits of ESG reporting have been well documented. However, if companies fail to address ESG reporting challenges, they will be liable to missing out on the most valuable benefits of ESG reporting such as accessing new sources of capital from sustainably conscious investors, development finance institutions and private equity firms and achieving operational efficiencies. The main challenges are setting of governance structures, understanding reporting boundary and materiality analysis. Strong ESG governance practices must be established in order to provide the accountability and support required for a company's ESG strategy to be successfully implemented. These practices are the structures and procedures that allow businesses to set goals, measure progress toward those goals, and report performance against those goals. The term "reporting boundary" refers to all the entities that a corporation controls (the "organizational boundary") as well as all those over whom it exerts influence (the "operational boundary"), and includes subsidiaries, suppliers, vendors, and contractors. This reporting boundary should include both the upstream and downstream and should be properly identified in order to capture an organization's impact. The concept of materiality relates to what decides whether subjects are crucial enough to warrant reporting. Identifying key issues in an organization is crucial in the preparation of a substantial ESG report.

The NSE has adopted global standards for ESG reporting while also taking into account the corporate environment in Kenya. The manual was developed using the GRI standards and the 2019 European Commission Non-Financial Reporting Guidelines. Thus, it offers guidelines and procedures for ESG reporting in Kenya. There is evidence of a significant global trend toward the inclusion of non-financial measures in performance management, and it's growing increasingly important for Kenyan companies to adhere to international ESG standards.

Eric Omare
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South Africa: Economic Outlook

Enhancing Economic Growth

The South African economy is facing weak fixed investment, high unemployment, and low growth. Low growth can be attributed to structural weaknesses in the economy, inefficiency in network industries (electricity, logistics, water, and telecommunications), inadequate competition, poor educational and skills mismatches. These problems require structural reforms, increased investment, and measures to improve the economy's resilience. The most pressing reforms are required in electricity and freight rail.

Economic Recovery

Government has made some progress implementing its economic recovery plan in the last year. The National Energy Crisis Committee (NECOM) was established in response to the electricity crisis, power cuts, and to accelerate new energy generation. The work visa system is being updated and will include the introduction of a remote worker visa and a special dispensation for high-growth start-ups. Eight masterplans are being implemented to promote industrial growth. The presidential employment initiative has created over 1 million short-term jobs over the past two years. Critical infrastructure will be rolled out in water and sanitation, energy, and transport.

Electricity

Eskom's lack of delivery in line with demand for electricity is demonstrated by the total hours of power cuts that increased from 1 165 in 2021 to 3 782 in 2022. NECOM aims to improve the availability of electricity and facilitate investment in generation capacity. If planned investments are implemented rapidly, 6 484 MW could be added to the grid over the next 24 months. Eskom's plant performance will be increased to ensure it procures power from existing independent power producers and import from neighbouring countries. Regulatory obstacles will be cleared through establishing a one-stop shop to bring electricity onto the grid more rapidly.

The rollout of rooftop solar for households will be supported through a tax incentive to encourage electricity generation and expand the renewable energy tax incentive for business. A wheeling framework and grid capacity rules will be implemented to provide certainty to private producers investing in energy projects. Eskom is being unbundled into generation, transmission, and distribution entities. The 2023 South African Budget provides Eskom with debt relief of R254 billion over the next three years. This will relieve pressure on Eskom's balance sheet and allow it to undertake the required maintenance and investment.



Transport and Logistics

Constraints in logistics negatively impacts economic growth and employment. More than a quarter of long-distance freight traffic has shifted to roads over the last five years due to deterioration in the freight rail network. The establishment of a transport regulator has been tabled in Parliament. Transnet is taking action to improve operations in key corridors. The operations and infrastructure management functions of Transnet Freight Rail will be separated by October 2023 to facilitate competition and improve pricing.

State Capability

The 2023 Budget provides support to address the State Capture Commission recommendations and bolster anti-money-laundering and counter-terror-financing activities.

Global Outlook

Global growth will slow down to 2.9% in 2023. Some of the world's largest economies is set to slow down in 2023 and Europe and the United States have signs of weakening activity. Labour markets in advanced economies remain fairly resilient. Manufacturing purchasing managers' indices in major advanced economies and some emerging market economies contracted in the second half of 2022.

Geopolitical uncertainty from the war in Ukraine resulted in price increases. Headline inflation in both advanced and emerging market economies has probably peaked. The International Monetary Fund projects that global consumer price inflation will decrease from 8.8% in 2022 to 6.6% in 2023 before decreasing to 4.3% in 2024. Global inflation averaged 3.6% in the decade preceding the pandemic.

Global demand will slow down in 2023 linked with a broad-based easing of commodity prices. Shorter-term demand for coal and iron ore is expected to decrease, while easing supply constraints in the automotive industry will support medium-term demand for platinum group metals. The gold price reflects its "safe-haven" status in a period of global uncertainty.

The US dollar strengthened against major currencies for most of 2022. As the pace of monetary policy tightening in the United States moderates, this trend is expected to reverse, with a weaker dollar in 2023.

Higher interest rates and slowing global growth weighed on global equity markets and bond yields for most of 2022 before a late recovery in the fourth quarter, given signals of a slower pace of monetary policy tightening.

Domestic Outlook

The Budget forecasts real economic growth of 2.5% in 2022 compared to 1.9% projected in 2022. The growth in 2023 in real GDP will be constrained by weaker global support, load shedding, increased inflation, and higher borrowing costs. Growth in GDP is estimated to be 0.9% in 2023 and to average 1.4% in 2025.

Employment

The South African economy lost 2.3 million jobs to the pandemic but regained 1.6 million jobs. The unemployment rate declined to 32.9% in the third quarter of 2022 (from 34.9% in the third quarter of 2021). South Africa had 7.7 million people unemployed in the third quarter of 2022, of which slightly less than half were new entrants into the labour force who could not find work. Nearly 60% of the 7.7 million were aged between 15 and 34. Employment recovery remains slow in the finance and business services, construction, transport and communications, and trade, catering, and accommodation sectors. Employment growth in the first three quarters of 2022 expanded by 4.6% compared to 2021.

The pace of job creation is expected to moderate in 2023, before rising gradually over the medium term.

Inflation

Inflation peaked in the third quarter and averaged 6.9% during 2022. Inflation is projected to reduce to 5.3% in 2023. Global crude oil and domestic food prices are sources of inflationary pressure. Electricity prices are estimated to increase by 4.6% over the medium term compared to the 2022 MTBPS and are projected to average 14% from 2023 to 2025, following the regulator's approval of an 18.7% tariff for Eskom in 2023/24. The broadening of price pressures in the economy is evident in core inflation, which is expected to average 5.2% in 2023 compared with 4.3% in 2022. Headline inflation is expected to ease to 4.9% in 2024 and 4.7% in 2025 as core inflation moderates over the medium term.

Household consumption

Household consumption is estimated to have increased by 2.8% in 2022 (compared to 5.6% in 2021). Although credit extended to households supported some recovery in consumer spending, rising borrowing costs will most likely slow credit extension in the short term. Household consumption is expected to average 1.4% from 2023 to 2025. By the end of 2025, the purchasing power of households may improve due to lower inflation and increased employment.

Investment

Gross fixed-capital formation grew in the third quarter of 2022, led by the public sector. Firms remain under strain given challenging domestic business conditions. Gross fixed-capital formation is estimated to have increased by 4.2% in 2022 (from 0.2% in 2021), mainly driven by private investment in machinery and equipment. Gross fixed-capital formation is estimated to reduce to 1.3% in 2023. The electricity crisis will weigh on investment decisions.



Balance of payments

National Treasury expects the current account surplus of 3.7% of GDP in 2021 to reverse to a deficit of 0.4% of GDP in 2022, driven by slowing net trade gains. The trade surplus in the first three quarters of 2022 narrowed by more than 50% compared to 2021. In the shorter term, weaker external demand, the easing of export commodity prices, and electricity and logistical constraints will limit export volume growth. A slowdown in domestic activity will constrain import volume growth in 2023, while demand for imports will gradually improve over the medium term. The current account deficit is expected to average 2% of GDP from 2023 to 2025. In the shorter term, the financial account will be vulnerable to capital outflows from global monetary policy tightening and market volatility.

Macroeconomic assumptions

Global demand is expected to increase by 3.2% in 2023. The export commodity price index is anticipated to decrease in 2023. The sovereign risk premium is expected to be 3.8% in 2023 and 3.6% in 2024 (averaging 4.1% in 2022). This decline reflects a slower-than-anticipated pace of tightening in global monetary policy, South Africa's fiscal consolidation, and progress in alleviating domestic structural constraints. Food prices are revised higher in the shorter term.

Economic scenarios

National Treasury modelled three scenarios against the baseline economic forecast. Scenario A assumes full implementation of NECOM interventions to resolve the electricity crisis. In scenario A growth averages 1.8% from 2023 to 2025. In Scenario B, power cuts intensify in 2023 and 2024. Real GDP growth slows to 0.2% in 2023, recovering to 1.3% in 2025. Scenario C assumes the impact of a sharper global slowdown in 2023 and a more tepid recovery in 2024. GDP growth is estimated to slow to 0.6% in 2023 before reaching 1.7% by 2025. Growth is projected to average 1.1% from 2023 to 2025.

Risks to domestic growth

Weaker-than-expected global growth, including the effects of monetary policy tightening in major economies. Further disruptions to global supply chains, inflationary pressures, and constrained food and energy supplies stemming from the war in Ukraine. A sustained period of lower growth and higher borrowing costs, which poses a threat to highly indebted countries. The domestic outlook faces a range of risks, led by load shedding and a deterioration in port and rail infrastructure. Slow implementation of structural reforms will deter new investment. Widespread criminal activity poses a threat to economic growth and national security.

The Future of Audit

We are in the fourth industrial revolution that has been dubbed the information age.

In this era, the use of digital technology and artificial intelligence is expanding quickly in a number of industries and across diverse fields. We now use block chains, internet of things, robotics, 3D printing among others in our day to day life. These technologies have fundamentally altered the way we work, interact, live, and conduct business.

These changes have forced audit professionals to rethink how audits are conducted. Fundamental questions have been raised around the future of audit. So why all the commotion now about using technology in audits? Will technology and AI actually assist us in improving audit quality and efficiency? What will audit look like in the future?

These questions take us to back to the fundamentals of the profession and how this will be best achieved in the changing times.

We must therefore remember the goal of the profession is to offer audit quality. In reality, technology and artificial intelligence (AI) have existed for a while. In audit, we have been using computer assisted auditing techniques (CAATS) and audit documentation software in our engagements.

The question is not around the use of technology in audits but rather how this will change moving forward?

The idea of audit quality in the midst of these changes has evolved and will require realignment of audit technology tools, how we manage data and the future auditor skill sets that will be integral in ensuring the end goal is met.

Technology

Audit quality remains at the core of the profession regardless of time.

Having said that, the future is technology and as such, we must leverage it to enhance output. This will involve the integration of technology-based audit tools into the audit procedures and operations in order to eliminate routine audit tasks.

This way, more time can be expended on critical and risky matters that require judgement.

Data Analytics

The ability of auditors to evaluate huge amounts of data and eventually highlight the specifics has improved with the integration of the audit techniques with structured and unstructured data analytics. Data anomalies and historical and predictive data trends can be used to highlight potential fraud, the possibility of significant misstatement, insufficient or erroneous data, and absent or inadequate internal controls.

These cutting-edge analytic tools may be able to identify odd fraudulent data patterns as well as transactional linkages between accounts that do not often line up. Computing power enables more intelligent and sophisticated data extraction and analysis, including new digital assets like cryptocurrencies that are expected to become more widespread.

However, it would also be necessary to give careful consideration to issues like data standardization and reliability, data privacy, cybersecurity threats, and AI ethics.

Auditor of the future

It is expected that the skill sets of the auditors will grow as the audit quality expectations expand. They need to understand not only the technology being utilized, but also how it operates, what risks it poses, and how businesses may reduce those risks.

Specialization will become commonplace as the need for certain skills rises. Instead of using a generic strategy, auditors will focus on spotting specific risk and fraud areas.

The impact of technology on the auditing process cannot be overemphasized. From predictive analytics to virtual reality, and other emerging technologies, it is paramount that the auditors closely monitor these changes and how they may be utilized to increase the value of the audit for both clients and stakeholders.

What's cutting edge today may not be so tomorrow. As such, it is important to keep researching to avoid complacency and ensure early adoptability.

Lydia Warui
Crowe COR LLP
Kenya



Lydia Warui

Crowe Tax & Advisory (JHB) (Pty) Ltd welcomes Ferdie Schneider

We are pleased to welcome Ferdie Schneider to Crowe Tax & Advisory (JHB) (Pty) Ltd, Johannesburg, South Africa. Ferdie joined the firm as a Director on 1 November 2022.

Ferdie has extensive experience in tax and advises local and international clients on various tax aspects. He has served on various local and international tax committees and is currently the chairperson of the Board of the South African Institute of Taxation. Ferdie previously held positions as tax partner at the big four accounting firms and also headed up the tax practice of a large international audit firm and served on its National Executive.



Ferdie Schneider
PhD Taxation, M.Com (Taxation),
M.Com (Econ) (cum laude),
Bcom Hons (Econ), PHED, BCom

About Crowe Tax & Advisory (JHB) (Pty) Ltd

Understanding tax issues is core to any financial services business, which is why Crowe in Southern Africa have a highly respected tax consulting service that is also capable of ensuring that all tax needs are met.

The tax consulting services of Crowe Tax & Advisory (JHB) (Pty) Ltd include -

- Tax and Estate planning
- Corporate and Individual tax planning
- Corporate restructuring
- Capital Gains Tax – planning and advice
- Value Added Tax (VAT) – planning and advice
- Payroll taxes (PAYE)
- Analysis of tax consequences of agreements and contracts
- South African and International tax consulting
- Transfer Pricing and Country-by-Country Reporting
- Dispute resolution and tax audit assistance
- Preparation and review of personal, corporate, and indirect tax returns

Sheena Indhul
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A Welcome Visit to Senegal

Our first French-speaking Africa meeting in three years was held in Senegal this past February. After so long spent apart due to the pandemic, it was wonderful to meet with member firms from West Africa, North Africa, and Kenya who were unable to attend the global conference last October.

As part of a network-wide focus on collaboration and knowledge sharing to fuel growth and address today's business challenges, I spent time discussing the larger region's economic developments along with strategic priorities. It helped to listen to these firms as they shared more about their capabilities, common challenges, and local opportunities.

The meeting wrapped up with a client event in the evening. I enjoyed meeting local government dignitaries and business people as well as learning more about the Senegalese economy and how it fits in the overall African economy. This includes more opportunities for trade, modernization projects, and infrastructure development.

Some of the outcomes from the meeting included organizing collateral on a sub-regional basis, building on the push for local business and community development throughout Senegal. Doing so would help provide detailed information that could be shared throughout the network to increase cross-border opportunities.

The meeting was also an ideal time to welcome our newest African firm from Sierra Leone. Decker & Partners is a professional firm that was established by Mr Vidal T.O. Decker, former Managing Partner of KPMG in Sierra Leone. The firm operates mainly in Sierra Leone but covers assignments in the sub-region, including Liberia, Guinea, and The Gambia. Their focus is audit, advisory, and taxation.

I look forward to more in-person meetings together throughout Africa but also encourage more members to attend our other in-person meetings this year, including an upcoming meeting in Paris in May and our global conference in October.



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About Crowe Global

As a top 10 global accounting network, Crowe Global has over 200 independent accounting and advisory firms in 145 countries.

For more than 100 years, Crowe has made smart decisions for multinational clients working across borders.

Crowe's leaders work with governments, regulatory bodies and industry groups to shape the future of the profession worldwide. Their exceptional knowledge of business, local laws and customs provide lasting value to clients undertaking international projects.

Crowe provides global reach on a personal scale. Crowe firms focus on the future, the client experience and working with clients to build something valuable, substantial, and enduring. Close working relationships are at the heart of our effective service delivery.

At Crowe, our professionals all share one commitment, to deliver excellence.