



SMALL & MEDIUM PRACTICES

Newsletter

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COVID-19: ADDITIONAL AUDIT CONSIDERATIONS IN TERMS OF DIRECTORS' RESPONSIBILITIES

By **Hayley Barker Hoogwerf**, SAICA Project Director: Assurance



1 – Changes to the working environment requires changes to internal controls

Due to the lockdown employees are, where possible working remotely, which is not part of the usual routine and may result in changes to both the design and implementation of internal controls. This impacts the directors' responsibility to ensure that such internal controls as determined necessary to enable the preparation of financial statements that are free from material misstatement are designed, implemented and operated effectively. This change to the working environment also impacts the work effort of the auditor. The global pandemic has resulted in a heightened risk of the occurrence of fraud. The primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management¹.

2 – The directors' responsibility relating to financial reporting

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with an appropriate financial reporting framework, such

as International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

With specific reference to the effects of COVID-19, regardless of how the entity continues to operate, the directors assume collective responsibility for:

- Maintenance of accounting records, including in cases of staff absences, remote working and system interruption;
- Maintaining the system of internal controls, including contingency planning;
- The prevention and detection of fraud;
- The preparation of financial statements, in line with an appropriate financial reporting framework that fairly present the effects of recent events on reported results or events, including appropriate disclosures. This includes ensuring compliance with the financial reporting framework, particularly items that are directly impacted by COVID-19;
- The preparation of financial statements in accord-

ance with an applicable financial reporting framework;

- The assessment of the appropriateness of the going concern basis of accounting in the preparation of financial statements;
- Any adjustment of the financial information considered necessary;
- Seeking legal, accounting or other professional advice and implementing such advice where appropriate;
- Appraising the audit team of new business and other operational risks and plans to mitigate such risks;
- Facilitating the audit team's access to facilities, records and persons relevant to the preparation and audit of the financial statements;
- Providing the auditor with any additional information that may come to management's attention which may have an impact on the audit; and
- Compliance with the national lockdown regulations

3 – Additional considerations arising from the COVID-19 pandemic

The auditor may consider highlighting additional considerations to the directors that they should take into account in fulfilling the directors' responsibility, as follows:

- The directors have assessed the effect of COVID-19 on their business and financial statements and made the appropriate adjustments to the carrying values of items recognised in the financial statements and included appropriate disclosures;
- The directors have taken the necessary steps to ensure that all known liabilities, including contingent liabilities arising from the impact of COVID-19 are correctly accounted for and disclosed in the financial statements;
- The directors are satisfied that:
 - o the financial statements disclose the effect of all known events and circumstances relating to COVID-19 that are relevant for understanding the financial statements;
 - o Significant estimates, uncertainties and assumptions surrounding the treatment of transactions as a result of COVID-19 have been sufficiently disclosed in the financial statements.
- The directors have disclosed to the auditors all known facts that are relevant to the audit and that relate to the financial statements;
- In assessing the ability of the entity to continue as a

going concern, the directors have included the impact of COVID-19 and the company's contingency plans relating to the pandemic, and are satisfied that the going concern basis of accounting remains appropriate;

- Where there are pre-existing events or conditions that did cast doubt on the entity's ability to continue as a going concern, the directors are satisfied that these have been accurately and sufficiently disclosed separately in the financial statements;
- The directors have advised the auditors of all known potential users of the financial statements and the expectations of those users, where known to the entity;
- The directors have taken the necessary steps to ensure that all events that occurred after the date of the financial statements and up to the date that the financial statements are issued have been disclosed and, where appropriate, adjusted.

The auditor may well advise and support the client in adjusting to the changed economic environment as a result of the COVID-19 pandemic. However, the above are additional considerations that the directors should take into account in fulfilling their responsibility. The auditor should be cognisant of the ethical responsibilities and caution against giving into pressure to act contrary to this in assuming management responsibility.

4 – Platforms for highlighting the additional considerations

The auditor may choose to highlight the additional considerations either in the engagement letter, raise these during discussions held with the directors of the entity or even obtain specific representation to confirm that the directors are aware of the additional considerations and are satisfied that they have been appropriately addressed.



THE PREVENTION AND DETECTION OF FRAUD

IN CONCLUDING:

With the heightened risk of the occurrence of fraud it is important that all parties involved in the financial reporting ecosystem work together to achieve the highest level of success in the fight against fraud.

¹ISA 240, paragraph 4





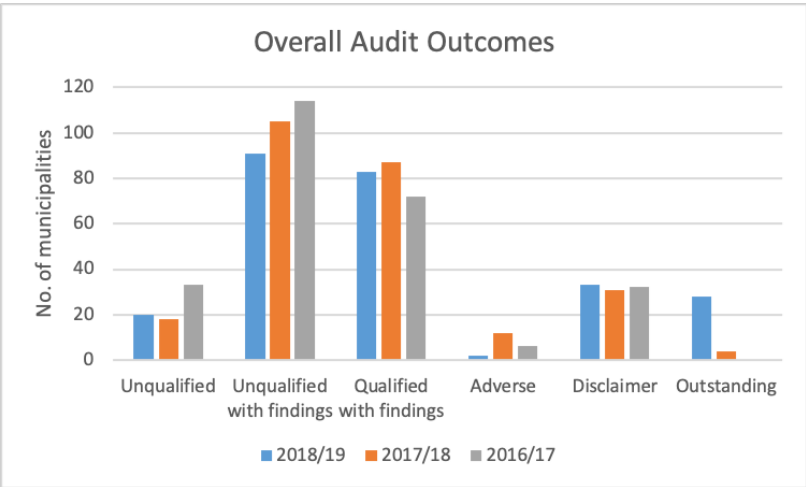
OVERVIEW OF THE 2018-19 MFMA AUDIT OUTCOMES

By **Kgoboko Makhafola**, SAICA Project Manager: Public Sector

The Auditor General's (AG) general report on the 2018-19 MFMA audit outcome reflected an overall regression for the 2018-19 financial year, with 46 of the municipalities regressing while 33 municipalities showed an improvement in their audit outcomes.

Only 18% of municipalities submitted quality financial statements with no material misstatements while unqualified opinions on the financial statements decreased from 47% to 43%.

The audit outcomes for the past 3 years are indicated in the graph below:

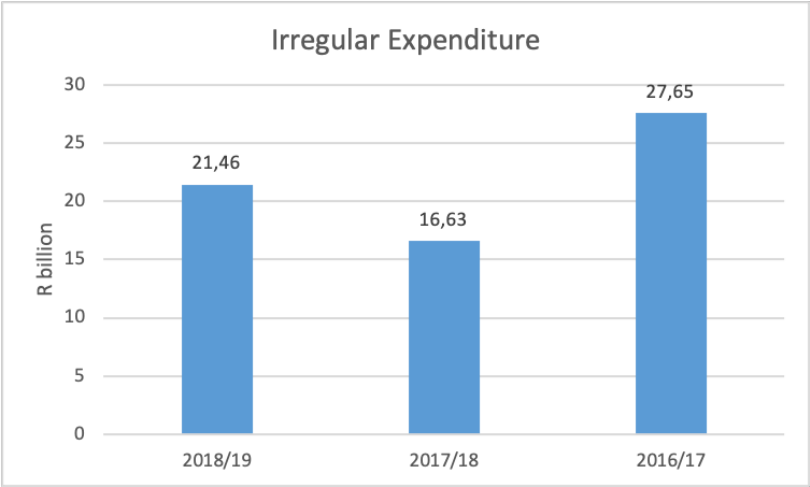


The root causes of the poor audit outcomes included:

- ▶ Slow or no responses in improving internal controls and addressing risk areas
- ▶ Inadequate consequences for performance and regressions
- ▶ Inability or vacancies in key positions or key officials lacking appropriate competencies

Irregular Expenditure

Irregular expenditure increased from R16.6 billion in the 2017-18 financial year to R21.46 billion in 2018-19. The graph below reflects the three year trend in irregular expenditure (in R bn):



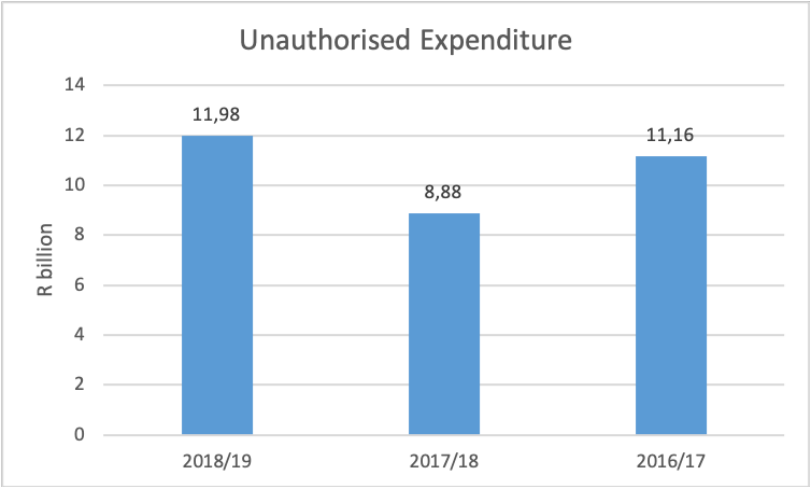
The main causes of irregular expenditure are as follows:

- Non-compliance with procurement process requirements – R12.34 billion
- Procurement without following a competitive bidding or quotation process – R5.47 billion
- Inadequate contract management – R2.16 billion

Unauthorised Expenditure

Municipalities incurred R11.98 billion unauthorized expenditure in 2018-19 (2017-18: R8.88 billion).

The graph below shows a three year trend in unauthorized expenditure (R bn):



The main cause of unauthorised expenditure are as follows:

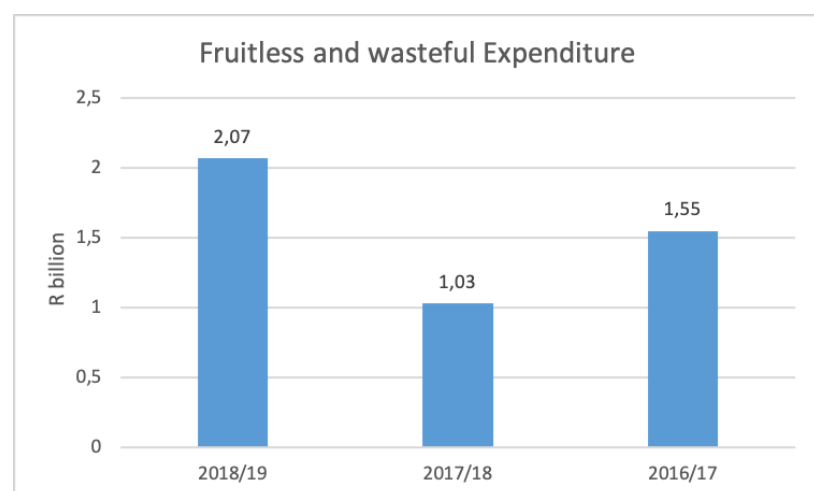
- R5.03 billion related to actual payments in excess of budget
- R6.84 billion related to non-cash items, representing the poor estimation of, for example asset impairments.





Fruitless and wasteful expenditure

Fruitless and wasteful expenditure increased by 101% from R1.03 billion in the 2017-18 to R2.07 billion in 2018-19. The graph below reflects a three year trend in fruitless and wasteful expenditure (in R bn):



The main cause of fruitless and wasteful expenditure was due to penalties and interest on overdue accounts and late payments which amounted to R1.78 billion.

Financial health

There has been a continued regression in financial health at municipalities in 2018-19. It is concerning that only 21% of municipalities had good financial health, while 38% of municipalities having financial health that requires intervention and 41% of municipalities' financial health is concerning.

There has also been an increase in the number of municipalities that recorded a deficit. The consolidated deficit of these municipalities amounted to R6.29 billion.

The deterioration of the financial health of municipalities also weighed heavily on their creditors. The AG reported that the average creditor-payment period was 180 days which is a regression from the 146 days reported in the previous financial year. More than 10% of debt was irrecoverable at 181 municipalities, this include 55 municipalities with more than 80% of their debt irrecoverable. The average debt collection period of debtors regressed from 157 days in 2017-18 to 181 days in 2018-19.

Material Irregularity

The Public Audit Act was amended to give the AG extended powers to foster clean governance in the public sector and these amendments became effective from 1 April 2019. The amendments introduced the concept of material irregularity which is defined as any non-compliance with, contravention of, legislation, fraud, theft, or a breach of a fiduciary duty identified during an audit performed under the Public Audit Act that resulted in or is likely to result in a material financial loss, the misuse or the loss of a material public resource or substantial harm to a public sector institution or the general public.

The AG implemented the material irregularity process at nine municipalities in 2018-19. Six material irregularities were reported from the nine municipalities which resulted in R24.5 million financial loss. The nature of the material irregularities was as follows:

- Payments for goods or services not received – R11 418 843
- Assets not safeguarded resulting in theft/vandalism – R11 849 379
- Unfair procurement leading to overpricing – R1 231 644

What does the AG recommend to improve audit outcomes?

The AG recommends that having preventative controls in place can help increase operational efficiency by improving the accuracy and timeliness of financial reporting and also reiterates that a strong control environment and processes are the key to achieving strategic objectives, addressing risks, ensuring compliance with legislation, and managing public sector funds to the benefit of citizens.

Some of the controls that municipalities can implement to improve preventative controls include the following:

- Segregation of duties - separating the preparer, reviewer and approver roles;
- Access controls - limiting access to certain information and assets to specific individuals;
- Document standardisation and management - ensuring that each transaction is supported by valid documents; and
- Approval and authorisation - requiring specific managers to authorise certain types of transactions



AUDITOR DEVELOPMENT PROGRAMME RELOADED – THE LATEST ON THE PROGRAMME REVIEW

By **Nadine Kater**, Director Education and Transformation



...IDENTIFY AREAS FOR
IMPROVEMENT AND THEN
ULTIMATELY RECOMMEND
SOLUTIONS.

A project plan is in place to effectively implement these initiatives. We are very pleased with the ADP Reloaded because it will ensure that RCAs and ORAs have an improved experience, and that will strengthen the programme even more. Look out for more communications regarding ADP Reloaded as we embark on this fulfilling journey of responding to the needs of our stakeholders.

Contact us on adpadmin@irba.co.za for further information.

The primary objective of the Audit Development Programme (ADP), when it was launched in 2015, was to provide a platform that would enable registered candidate auditors (RCAs) to develop their professional competence at a registered auditor (RA) firm. The programme has successfully achieved this objective.

The ADP is a period of specialisation undertaken by professional accountants who want to become RAs. It provides a context wherein the consolidated capabilities developed in the training programme can be refined in a more complex learning environment while performing roles that are more senior to those undertaken during the training programme.

RCAs are given the opportunity to specialise as RAs by gaining exposure to a broad range of competencies required for RAs in practice to develop and enhance their:

- Professional competence and judgment;
- Ethical values; and
- Lifelong learning skills and attitudes.

By the end of the ADP, RCAs are expected to have acquired and demonstrated competence to a level that is expected of an RA. While it has been an exciting and challenging journey to facilitate the ADP, witnessing all the RCAs who have successfully completed the programme has also been satisfying. The strength of the ADP is that it requires collaborative efforts between firms and the IRBA. This collaboration can be witnessed through the ADP monitoring process,

which is aimed at assessing whether the environment in which the RCAs are being trained is suitable to produce competent RAs. The IRBA seeks to work with firms and ensure that RCAs are provided with sufficient opportunities, within a quality environment, to develop their audit competence to a point where they can provide professional services to their clients, employees and the public at large.

In 2019, the Education and Transformation team commenced with an ADP review project to identify areas for improvement and then ultimately recommend solutions. After the initial self-assessment, the team conducted extensive consultations with ADP stakeholders to obtain feedback on all the components of the programme in its current form. The stakeholders – including RCAs, oversight RAs (ORAs) and the Portfolio of Evidence (PoE) panel members – were asked to submit surveys and attend focus groups and workshops throughout the initiation phase.

We successfully completed the research and noted both the strengths and improvement areas within the ADP. We then decided to create an action plan to ensure that the improvement areas are adequately addressed, and to also respond positively to our stakeholders. All this resulted in what we have termed the ADP Reloaded. It should be noted, though, that this is not a new programme, but rather the same ADP that has now been strengthened even further through various exciting initiatives, as depicted in the graphic below.

Launch of an online platform

- The new online platform will simplify the life of all ORAs and RCAs.
- The platform will also ensure a faster turnaround time in obtaining feedback from the IRBA.

Revised registration and PoE submission period

- Going forward, registrations and PoE submissions will be done on a bi-annual basis.
- This is exciting for RCAs and ORAs as there will be more structure on the ADP and PoE feedback will be expedited.

Restructured PoE

- The PoE content volume and structure have been changed for the benefit of RCAs. We have taken a more competency framework driven approach.

Revised assessment process

- In addition to the PoE online submission, the RCA will be assessed through an interview.
- This is exciting as each RCA will be given the opportunity to demonstrate their professional competence in person.



IMPACT OF EMPLOYEES' HEALTH AND WELLBEING ON CORPORATE SA

By **Loshni Naidoo**,
SAICA Project Director: Integrated Reporting

Corporates are currently dealing with how to report company performance whilst navigating a myriad of uncertainties due to the outbreak of COVID-19. This includes ensuring that not just the financial information but the environmental, social and governance elements of the annual report are an accurate reflection of the company's response to this pandemic.

Reporting on employee health has largely been neglected, even though the wellbeing of employees has a substantial impact on business success and sustainability. This element of reporting has never been more important than it is now.

Health and wellbeing of employees crucial
The consequences of the pandemic such as the lockdown restrictions, retrenchments, working from home, etc., and how a company is responding to these, impact the mental, emotional and physical wellbeing of an employee. Ensuring the health and wellbeing of its employees is crucial for a company to be able to sustain itself both during and after lockdown.

Our Health and Wellbeing Advisory Group (HWAG) conducted a [comprehensive survey during 2019](#) to understand where corporate SA is with regards to health and wellness reporting. The survey was completed by 172 companies. Of these companies, more than 50% are involved in the financial sector, and approximately 70% of them had less than 500 employees.

Some of the key findings of the survey include:

- The most successful programmes, policies and practices across the board are in the areas of occupational health and safety, medical benefits for full-time workers and smoke-free workplaces;

- The vast majority of large companies (78%) meet regulatory requirements for worker occupational safety and health;
- A slight majority of large companies (51%) have an annual budget or receive dedicated funds for health and wellbeing initiatives; and;
- The majority of companies do not believe it is necessary to get involved in the following areas at the moment: incentives for a healthy lifestyle, physical exercise, reduction of alcohol consumption, tobacco use cessation, sleep management, health coaching, health risk assessment, and the extension of available programmes to family members and other dependants.

“Most successful and innovative organisations today make employee health and wellbeing a key focus of their business strategies. It is not something to which they simply pay lip-service: they spend a lot of time, energy and money in developing workplaces that enhance wellness and consider those to be a crucial component of their organisational business strategies. These companies would therefore probably be more resilient during this period, as employees are able to remain productive due to a supportive workplace environment.” – Freeman Nomvalo, CEO, SAICA

- Sustaining the company and its employees**
The HWAG believes that companies should report on the following components:
- Occupational health and safety;
 - Provision of medical benefits for full-time workers;
 - A smoke-free workplace;
 - Mental wellness programme (e.g. stress management, resiliency programmes, managing depression);
 - Employee assistance programme (EAP) access for counselling and intervention for those already at high risk (e.g. stress, depression);
 - Family-friendly policies (e.g. flexible work schedules or working remotely);
 - Access to healthy office design components based on special needs (e.g. sit-stand desks in case of back pain);

- Communal spaces where employees can eat, relax, interact with co-workers, or hold private conversations; and
- Assessments of the health and wellness of its employees, such as a health risk assessment (HRA) survey or biometrics screening assessment or the self-reported general health status of its employees using a confidential survey or assessment tool.

MOST SUCCESSFUL AND INNOVATIVE ORGANISATIONS TODAY MAKE EMPLOYEE HEALTH AND WELLBEING A KEY FOCUS...

CONCLUSION
The onset of COVID-19 will pressure and require companies to prioritise and elevate a number of these components which previously may have only received passing attention as companies strive to ensure a safe and sustainable working environment for their employees.

Integrating these practices into the business is vital for sustaining the company and its employees.

The full Reporting on Health and Wellbeing document, including the components that companies responded to, can be accessed [here](#).

The HWAG is currently exploring developing guidance for companies on how to report on employee health and wellbeing.





ETHICAL CONDUCT STARTS WITH PERSONAL VALUES

By **Prof Ilse Lubbe**, (University of Cape Town)
and **Prof Kato Plant**, (University of Pretoria)

When asking a school child what values his/her school embraces, he/she will quickly tell you: respect, honesty, fairness, responsibility, acceptance, excellence...

We all develop personal values from a very young age, and these values are personally embedded in who we are, where we come from, what we have experienced, and how we see the world. Personal values are “broad desirable goals that motivate people’s actions and serve as guiding principles in their lives” (1). A person can have many values with some values being more important than others. The values that are most important to you often guide your actions and decision-making in all aspects of your life such as career, religion, social circles and self-identity.

Even though some core values remain the same, for example ‘What do I stand for?’ or ‘What are my core beliefs?’, some values change and develop over time. What may be of value to you at school, may be different when you are a student. Again, what you may value during your studies may change when you enter the world of work. In some cases, a value becomes more prominent because of a close or personal experience, for example safety, justice, or faithfulness.

There are no ‘right’ or ‘wrong’ values, it is more about the meaning of a value for the person, and how it influences

behaviour. The same value in different people can prompt different behaviours, for example, valuing success may, for one person mean work very hard to gain career success, whereas someone else may take advantage of others to climb the career ladder. These differing value systems create challenges in professions where members appear not to have a common understanding of appropriate behaviour.

Furthermore, one’s personal values may differ from one’s work values, organisational values, and professional values. Quite often these values are in conflict and conflicting values create ethical dilemmas. For example, do I follow the law and report the non-compliance (value of honesty and duty) or do I keep quiet because my friend will be jailed (value of loyalty)? Choosing between right and wrong becomes blurred and individuals are often driven by their ‘gut’ or personal values on deciding ‘what is the right thing to do?’

It is also interesting to note that some individuals tend to always choose the behaviour that aligns to compliance with laws and regulations (duty ethics / deontology) without necessarily considering the consequences of their actions and behaviours. Others tend to choose the action that will result in the greatest happiness for the greatest number of people (utilitarian ethics), thus carefully considering the consequences of their actions.

When preparing future accountants for the world of work, it is important to develop their moral characters and compasses. The ethical principles, values and virtues (virtue ethics) of integrity, objectivity, competence and confidentiality, and professionalism should drive their behaviours as professionals (2). During the academic education programme, these professional and ethical values are often taught using an externally-based, compliance approach, for example learn how to comply with the SAICA Code of Professional Conduct, or the King IV principles and practices. Compliance-based ethics education may reduce an accountant’s propensity to commit illegal, unethical acts, however such training does not reduce the accountant’s propensity to commit legal, unethical acts. Given this, some accounting education programmes have moved beyond teaching ethics as compliance. However, there is conflicting evidence as to how to effectively teach and learn ethics to build a moral character and instil ethical values. In South Africa, the main components included in the Business and Professional Ethics modules of accredited programmes include SAICA’s Code of Professional Conduct, governance (with reference to the King IV report), as well as company ethics. While some courses include ethical decision-making, very few cover ethics theories (deontology, utilitarianism, virtue ethics), the underpinning motivators for behaving in a certain manner (3).

Concentrating on learning objectives to increase students’ awareness of their personal values and the role values play in ethical decision making, a Canadian study (4) gave accounting students exercises that required them to clarify their values and then write individual and personal codes of conduct that are intended to instruct their future professional selves to behave ethically. A similar study is planned in South Africa, with several universities participating (refer to details of the Collaborative Ethics Research Group at the end of this article). The purpose of the study is to enable students to identify, clarify and reflect on their personal values. Then, by giving voice to their values, students are equipped to respond to normative questions of ‘what is the right thing to do?’ and the behavioural question ‘how do we get the right thing done?’ (5) The study will be conducted over the three or four years of the academic programme to determine how students’ ethical health de-

velops and hopefully make better ethical decisions. It is envisaged that such an exercise to “give voice to one’s own values” will assist students to buy-in to a universal set of ethical values and principles as underpinned in the SAICA Code of Professional Conduct. It might also assist students to reflect on whether one’s personal values differ (or should differ?) significantly from one’s work or professional values.

Some are of the opinion that ethics is already predetermined by lived experiences and environments prior to entering university, and that ethics education does not matter. We firmly believe that the university provides a ‘safe space’ for students to discuss personal values and experiences. Students acquire tools in the format of case studies and role-plays of ethical dilemmas that may be experienced in the world of work, without personal risks associated with job-loss, whistleblowing, and intimidation. Discussions include aspects associated with lack of independence, being transparent, applying professional scepticism, having a critical mind-set, and establishing self-values.

However, universities also have an important role to play by introducing consequences when students behave unethically. These include taking action against students who are copying from other students, faking sick notes and unethical conduct during tests and exams.

The further development of ethical acumen continues through the SAICA training programme.

Collaborative Ethics Research Group

The aim of the Collaborative Ethics Research Group is to conduct several studies relating to the status of Ethics in Accountancy in South Africa. Topics range from the education of ethics, ethics training, and ethical conduct in the world of work.

If you are interested in joining this research group, or setting up your own research group, feel free to contact Prof Ilse Lubbe (Ilse.lubbe@uct.ac.za) or Prof Kato Plant (kato.plant@up.ac.za)

(1) Sagiv, L., Roccas, S., Cieciuch, J., & Schwartz, S. H. (2017). Personal values in human life. *Nature Human Behaviour*, 1(9), 630-639.

(2) These principles are clearly set out in the SAICA Code of Professional Conduct which all professionals subscribe to being a member of a professional body.

(3) Results of a study conducted in 2019 amongst all SAICA accredited universities. This study forms part of the work of the larger Ethics Collaborative Research Group. The study was conducted with the support of SAICA. Participants from all universities were invited to the Ethics Education workshop that facilitated the data collected for this study.

(4) Sheehan, N. T. and Schmidt, J. A. (2015). Preparing accounting students for ethical decision making: Developing individual codes of conduct based on personal values. *Journal of Accounting Education*, 33(3), pp. 183-197.

(5) Gentile, M. C. (2010). *Giving voice to values: How to speak your mind when you know what’s right*. Yale University Press. Mintz, S. (2016). *Giving voice to values: A new approach to Accounting Ethics Education*. *Global Perspectives on Accounting Education*, 13(1), pp. 37-50.





INSURERS - SEEKING THE SILVER LINING IN THE COVID-19 PANDEMIC

In the period of lock down the South African Insurance Industry has shown that it was still able to service clients, often remotely.

By **Marivha Nomfundo**,
Partner: Financial Institutions Services Team and member of SAICA IPG



IN THE MIDDLE OF DIFFICULTY
LIES OPPORTUNITY

Pre the COVID-19 pandemic the insurance industry was already dealing with large scale regulatory changes, implementing IFRS 17, and repositioning insurers for changing customer needs. The added complexity of the pandemic has certainly not helped the sleeping patterns of insurance executives. Whilst the economic strain of the pandemic is clear to see, there are some positives amongst the doom and gloom, if you know where to look.

It has barely been two years since the insurance industry saw the introduction of the Twin Peaks regulatory architecture aimed at maintaining the stability of the financial system and market conduct. Customer and technology demands are changing the landscape forcing insurers to be innovative and leave behind legacy systems. The issuance of IFRS 17 by the International Accounting Standards Board (IASB) brings material change to how insurers account for insurance contracts. The outbreak of the Coronavirus disease 2019 (COVID-19) in early 2020 just added some more spice.

The global pandemic has left its mark on the South African economy, and in turn on the insurance industry. We have seen increased policy lapses and claims as well as a severe disruption to new business flows. The insurance landscape has changed, introducing all sorts of issues previously not even on the radar. That said, could the pandemic perhaps be the catalyst needed for transformation in an industry often accused of being slow to respond to changes? Albert Einstein once said, "In the middle of difficulty lies opportunity".

In the period of lock down the South African insurance industry has shown that it was still able to service clients, often remotely. Encouragingly insurers have also accelerated decisions and roll-out plans around digital distribution. The greater acceptance by clients, intermediaries and insurers of digital distribution and service models creates opportunities for access to new markets, and more cost effective operating models. And it is here that I believe that the IFRS 17 and COVID-19 stories meet each other.

Whilst IFRS 17 is "only" an accounting standard those responsible for implementing the standard often find that the resulting debits and credits are less troublesome than obtaining and storing the data needed. Similarly, insurers need more granular and reliable data to leverage Artificial Intelligence and cognitive technologies to enhance its capabilities in areas such as personalised advice and dynamic pricing.

The data needed for IFRS 17 is often not dissimilar to what an insurer needs to segment and better understand its current and future client base for business purposes. Call me an accountant dreamer, but the better the data an insurer has for its IFRS 17 reporting, the better data it has to service and sell to its customers digitally. The inverse is also true.

Insurers should ensure that operational management teams and accountants compare notes on their data journey. Working collaboratively using the same data sources and storage formats could save costs, but also improve reporting and decision making. The

IASB's recent deferral of IFRS 17 to financial years commencing on or after 1 January 2023 creates breathing space for insurers to re-look at their IFRS 17 data designs. Insurers should ensure that there is sufficient alignment between all data sources in the business.

A transformation to a more agile and digital insurance industry is well underway. Management teams have also learned from the COVID 19-process and are readying themselves to respond more swiftly to future systemic events. The industry actions through enhancing benefits, participating in CSI initiatives and leniency when collecting premiums have helped maintain the trust between insurers and their policyholders. If one looks past the carnage caused by COVID-19 to the current year financial results, there is definitely a silver lining around the dark cloud hanging over the insurance industry.

PREPAID EXPENDITURE AND TAX

By **PJ Nel** CA(SA), SAICA Project Director Taxation

Following a recent decision in the Supreme Court, taxpayers will have to revisit their understanding of the provisions of section 23H of the Income Tax Act. In this case, SARS's interpretation of section 23H differs from the interpretation of, not only the taxpayer but also taxpayers in general. Taxpayers or their advisors will have to reconsider their tax position relating to prepaid expenses where the expense incurred in respect of a service may also lead to another benefit for the taxpayer.

It is common for businesses to pay expenditure in advance. In a case, reported earlier this year, the judge agreed with SARS's interpretation of section 23H. This interpretation differs from previous interpretations given by SARS in the past. (Footnote linked to 'case': Telkom SA SOC Limited v The Commissioner for the South African Revenue Service (Case no 239/19) (2020) ZASCA 19 (25 March 2020)).

The treatment of prepaid expenses in the computation of taxable income, under section 23H of the Income Tax Act, differs from the accounting treatment thereof. Let us start with the general principles of section 23H of the Income Tax Act. This section applies where certain expenses were incurred by the taxpayer in a year of assessment and

- all the goods will not be supplied or the services will not be rendered to the taxpayer, during that year of assessment; or
- the period to which the expenditure relating to any other benefit, extends beyond that year of assessment.

Section 23H applies to specific expenditure. The expense, in the first instance, must qualify for deduction in terms of certain provisions of the Act. They are section 11(a) - all deductions not specifically provided for, section 11(c) - legal expenses in respect of disputes, section 11(d) - repair, section 11(w) - premiums payable under a policy of insurance, or section 11A - expenditure incurred prior to commencement of trade. Section 23H excludes expenses related to interest rate agreements and option contracts.

From an accounting perspective, an expense incurred in a financial year which the business otherwise would have incurred during the next 12 months, is itemised as a current asset on the statement of financial position.

Section 23H does much the same. Where section 23H applies, the taxpayer will have to apportion the expense. In essence, the taxpayer will only be able to make a deduction of the portion of the expense that relates to the year of assessment during which the taxpayer incurred the expense and will deduct the balance in the subsequent year (or years).

Both of them therefore spread the expense over the period the taxpayer will have the service rendered or enjoy the benefit. So, where does the accounting and tax treatment differ?

Where the expenditure relates to goods, it would generally be trading stock (which includes consumable stores) and the accounting treatment would be the same as the tax treatment, apart from fair value adjustments.

For tax purposes, there are two instances where the taxpayer does not have to spread the expense over more than one year of assessment. The first is where the aggregate of all amounts of expenditure incurred by the taxpayer (the prepayments) does not exceed R100 000. The second one is where the taxpayer will receive all the goods or services, or will enjoy the full benefit of the expenditure within six months after the end of the year during which the taxpayer incurred the expenditure. There is an exception relating to expenditure incurred in respect of research and development activities, and expenditure actually paid in respect of an unconditional liability to pay an amount imposed by legislation, but this article will not deal with them.

The prepayment or amount that must be deducted in future years of assessment, as far as goods is concerned, is determined with reference to the goods actually supplied to the taxpayer in the relevant year of assessment. Where the expenditure relates to services or a benefit, the taxpayer must apportion it by using the number of months in each of the years of assessment.

In the Telkom case, the taxpayer paid cash incentive bonuses to dealers on the conclusion of an initial subscriber contract and also paid a separate commission for the benefit that the taxpayer derived from the subscription fees, over the term of the subscription agreement, being 24 months. Judge Swain agreed with SARS that Telkom does not incur the incentive bonus expenditure solely to establish a new connection with a customer, but also for the benefit in having a customer who pays subscription fees over the fixed term of the contract. For that reason, the period to which the expenditure 'relates', must be the period during which the benefit is enjoyed.

The question is what, if anything changed. Let us use SARS's binding private ruling 18 to see if anything changed.

The facts, in BPR018, are the following:

- The taxpayer is a property investment company that regularly enters into leases in respect of its properties.
- It has appointed a letting agent to source tenants for which a once-off letting commission is payable by the taxpayer to the letting agent.
- The letting agent will market properties to potential tenants, negotiate for and on behalf of the taxpayer the terms of the new leases and ensure that potential tenants qualify for such leases and facilitate the letting.
- The leases that the taxpayer entered into were for periods ranging between three to five years.
- The ruling given by SARS was that "the letting commission is deductible as and when the expense is incurred. The provisions of section 23H are not applicable."

In my view, if a taxpayer makes a similar request to SARS now for a ruling, SARS will not issue the same ruling, on these facts, after the Telkom case. The first important principle coming from the Telkom case is that expenditure can result both in a service that was (or is to be) rendered and another benefit to the taxpayer. Whilst the service then does not extend beyond the year-end, the benefit may extend beyond the year-end.

If we replace the facts in the Telkom case, with the facts in the ruling (so cash incentive, with letting commission, etc.), the words of Judge Swain in the Telkom case, would read as follows: The taxpayer does not incur the letting commission solely to establish a new lease contract with the tenant. The benefit lies in having a tenant who make lease payments

over the fixed term of the contract. The taxpayer does not enjoy any benefit immediately upon the conclusion of a new contract. It has nothing to show for it until the lease agreement turns into a receipt. That is when the taxpayer begins to enjoy the true benefits of the letting commission.

Following from that, the ruling should then be, that "the letting commission is NOT deductible as and when the expense is incurred. The provisions of section 23H are applicable."



CONCLUSION

Following the Telkom case, it will be necessary for taxpayers to revisit their understanding and application of the provisions of section 23H. It is clear from the case that SARS's interpretation of the section differs from the interpretation of taxpayers and it may well require of taxpayers to reconsider the tax position they take with respect to prepaid expenses.



PRIOR PERIOD UNCORRECTED MISSTATEMENTS – WHICH SIDE OF THE “MATERIALITY FENCE” ARE THEY?

By **Lynette Roeloffze** CA(SA), Senior Manager Quality and Risk Management at Mazars

Imagine it is the week that you need to sign ABC (Pty) Ltd's 2019 auditor's report. You are reviewing the final schedule of uncorrected misstatements, holding your breath and hoping that the uncorrected misstatements do not individually or in aggregate exceed materiality. If materiality is exceeded, the auditor needs to consider the impact on the auditor's opinion and ultimately the auditor's report.

As an auditor, I am sure that you have found yourself in the situation of being on the “wrong side of the materiality fence”. As a Senior Manager in the Quality and Risk department of an audit firm, I've been involved in many such situations where technical consultation were sought by our auditors. What is interesting to note is that some of these technical consultations that I have been

involved in, even before the start of the COVID-19 global pandemic related to situations where the auditor assessed the effect of uncorrected misstatements related to prior periods on relevant classes of transactions, account balances and disclosures and the financial statements as a whole and came to the conclusion that these uncorrected misstatements “jumped over the materiality fence”.

The global pandemic brought about by COVID-19 has, in many instances resulted in a decrease in materiality. Here, the auditor needs to carefully consider the effect of uncorrected misstatements related to prior periods on relevant classes of transactions, account balances or disclosure and the financial statements as a whole (ISA 450, Evaluation of Misstatements Identified during

the Audit (ISA 450), par 11 (b)) and if these prior periods uncorrected misstatements “jumped over the materiality fence” and now have material effect, either individually or in aggregate on the current period classes of transactions, account balances and disclosures and the financial statements as a whole.

When management and/or the auditor are faced with a situation where the prior periods' uncorrected misstatements have a material effect on the current period (due to a decrease in materiality), this may result in

- a) a modified auditor's report; or
- b) the need for these to be corrected by management by restating the AFS and disclosing it as a prior period error.

The situation as explained above results, inter alia, in an increased effort and time by both management and the auditors, potentially resulted in increased costs. But, in my view the biggest impact lies in the potential for reputational damage to both the client and the auditor. Reputational damage from the client's perspective in that they'll either have a modified auditor's report in the current year or have to report prior period errors in their current year AFS based on the corrections they've now had to make. The reputational loss from the auditor's perspective lies therein that a modified auditor's report referencing to prior period material misstatements or AFS with reported prior period errors might create the perception to the users of these AFS and the public at large that the auditors made mistakes that now need to be corrected.

From the consultations I've been involved in, it is clear that there is more than one way in which to approach this reality that auditors face. Our audit firm has identified several options that are at the auditors' disposal, namely:

- a) **Exercising professional judgment in determining materiality for the current period by considering the appropriateness of the chosen benchmark used historically to determine materiality. By taking into account the various factors identified in paragraph A3 of ISA 320, Audit Materiality (ISA 320), the auditor may identify a more appropriate benchmark to be used in the current year. For example, currently the COVID-19 global pandemic is resulting in volatility in, specifi-**

cally the revenue and profit before tax benchmarks and with the “relative volatility of the benchmark” being one of the factors to consider (as per paragraph A3), the auditor can exercise his / her professional judgment and determine that revenue and / or profit before tax are no longer appropriate benchmarks in relation to the current period being audited;

- b) **Exercising professional judgment when selecting the relevant financial data on which materiality for the current period is to be determined. Per paragraph A5 of ISA 320, relevant financial data ordinarily includes prior periods' financial results and financial positions, the period-to-date financial results and financial position, and budgets or forecasts for the current period, adjusted for significant changes in the circumstances of the entity and relevant changes of conditions in the industry or economic environment in which the entity operates (author's own underlining);**


- c) **Exercising professional judgment in determining the current period's materiality and concluding that the same benchmark as in the past and the current period's financial data are considered the most appropriate.**

It is advisable that once materiality has been determined in accordance with ISA 320, the auditor assess the impact of the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole (ISA 450, par 11b) during the planning stage of the audit and not wait until assessing the identified current period's uncorrected misstatements as part of the finalisation of the audit. By assessing the prior period uncorrected misstatements as part of the current period's planning stage, the auditor timeously identifies whether there are prior period uncorrected misstatements that necessitates a “jump over the materiality fence” and in doing so, saves time and effort and supports an effective and efficient audit.



...THERE ARE MORE THAN ONE WAY IN WHICH TO APPROACH THIS REALITY...





RESPONSIBILITIES OF AGA(SA)S AND AT(SA)S RELATING TO NOCLAR

By **Viola Sigauke**, SAICA Project Manager: Regulatory Reporting

The Non-Compliance with Laws and Regulations (NOCLAR) section 260 and 360 were issued by the International Ethics Standards Board for Accountants (IESBA) in July 2016 with an implementation date of 15 July 2017. In line with the changes to the IESBA's Code of Ethics for Professional Accountants, the South African Institute of Chartered Accountants' (SAICA) Code of Professional Conduct was updated in December 2016 to include requirements and guidance to assist SAICA members and associates in applying the NOCLAR requirements.

In 2018, the IESBA issued the revised and restructured International Code of Ethics for Professional Accountants (including International Independence Standards) (the IESBA Code). The Board of SAICA adopted the IESBA Code in its entirety as the Code of Professional Conduct of the South African Institute of Chartered Accountants (Revised 2018) (the SAICA Code) which became effective from/after 15 June 2019.

The SAICA Code defines NOCLAR as acts of omission or commission, intentional or unintentional, committed by a client or the professional accountant's employing organisation, or by those charged with governance (TCWG) of the client or the employing organisation, by management of the client or the employing organisation, or by other individuals working for or under the direction of a

client or employing organisation, which are contrary to the prevailing laws or regulations.

The NOCLAR requirements apply to professional accountants, thus to all SAICA members and associates, whether in public practice providing professional services to clients, or whether in business carrying out professional activities for an employing organisation. The SAICA Code defines an associate as a person who has been admitted and registered as an associate general accountant (AGA) with the Institute and is therefore entitled to use the designation "Associate General Accountant" or "Associate General Accountant (South Africa)" or the initials "AGA(SA)", or a person who has been admitted and registered as an associate (AT) with the Institute and therefore entitled to use the designation of Fellow Member of Association of Accounting Technician or the initials "FMAAT(SA)" or Member of Association of Accounting Technicians or the initials "MAAT(SA)" or Public Sector Member of Association of Accounting Technician or the initials "PSMAAT(SA)".

Based on the definition of associate in the SAICA Code it means that the NOCLAR provisions in the SAICA Code apply to AGA(SA)s and AT(SA)s as well. In terms of SAICA's By-Law 20² it states that the Board shall have the power to prescribe and amend, from time to time, rules

or a code of professional conduct, applicable to members, associates and trainee accountants.

Section 360 and section 260 of the SAICA Code set out the professional accountant's responsibilities, including AGA(SA)s and AT(SA)s, (in public practice or in business, respectively) in responding to NOCLAR or suspected NOCLAR. These sections were effective as from 15 July 2017.

The NOCLAR provisions set out a response framework to guide professional accountants including AGA(SA)s and AT(SA)s in what actions to take in the public interest when they become aware of a suspected NOCLAR. A clear pathway for professional accountants to disclose suspected NOCLAR to appropriate public authorities in certain situations without being constrained by the ethical duty of confidentiality is provided. According to the SAICA Code sections 360.5 A2 and 260.5 A2, examples of laws and regulations which these sections address include those that deal with:

- **Fraud, corruption and bribery.**
- **Money laundering, terrorist financing and proceeds of crime.**
- **Securities markets and trading.**
- **Banking and other financial products and services.**
- **Data protection.**
- **Tax and pension liabilities and payments.**
- **Environmental protection.**
- **Public health and safety.**



THE NOCLAR REQUIREMENTS APPLY TO PROFESSIONAL ACCOUNTANTS, THUS TO ALL SAICA MEMBERS AND ASSOCIATES.

Professional accountants are required to respond to NOCLAR that have a more than inconsequential effect on the client, employing organisation and the general public. Non-compliance with Laws and Regulations might result in fines, litigation or other consequences for the client or the employing organisation, potentially materially affecting its financial statements.

SAICA published [an overview and summary of the response framework](#) in terms of the NOCLAR provisions of the SAICA Code. The framework highlights the steps to be taken after becoming aware of a suspected NOCLAR:

- 1 Becomes aware of a NOCLAR or a suspected NOCLAR
- 2 Obtains an understanding of the matter
- 3 Discusses the matter
- 4 Determines whether further action is needed, after considering whether the matter has been addressed appropriately
- 5 If applicable, decides on appropriate further action
- 6 Documents
- 7 Exceptional circumstances override

NOCLAR should not be reported to SAICA or any specific accounting professional body but to the appropriate authority, which includes the Companies and Intellectual Property Commission, the National Prosecuting Authority and others.

AGA(SA)s and AT(SA)s should familiarise themselves with the requirements as set out in the SAICA Code as applicable to them in their specific circumstances.

Information with respect to NOCLAR is available on the [SAICA website](#).

²SAICA By-laws and Appendices as approved by the Board on 16 April 2020, effective from 1 June 2020



INTERNATIONAL FINANCIAL REPORTING STANDARD FOR SMALL AND MEDIUM-SIZED ENTITIES (IFRS FOR SMES) REVIEW

By **Bongeka Nodada**, SAICA Project Director: Financial Reporting, Corporate Reporting

Since the publication of the IFRS for SMEs Standard just over 11 years ago, this Standard has been subject to one review which commenced during 2013 and finalised in 2015. The International Accounting Standards Board (IASB) reopened the discussion focusing once again on the changes that are to be made to the IFRS for SMEs Standard.

Major changes to the IFRS for SMEs Standard could arise as result of the proposals that are published in the form of Request for Information: Comprehensive Review of the IFRS for SMEs Standard (RFI).

The objective of this consultation phase was to seek views on whether and how aligning the IFRS for SMEs Standard with the full IFRS Standards could better serve users of financial statements prepared applying this Standard without causing undue cost and effort for SMEs. The key proposal that is likely to have a significant impact on SMEs relates to the principle of aligning the IFRS for SMEs Standard with full IFRS and specifically the alignment with the new IFRS which came into effect in the past seven years including

IFRS 9 – Financial Instruments, IFRS 15 – Revenue from Contracts with Customers, IFRS 16 – Leases and the



consolidations standards. This process also gave SMEs the opportunity to raise other implementation concerns or challenges they are experiencing with the IFRS for SMEs

Standard as well as additional guidance that is needed.

[Please follow this link to see SAICA'S response to the RFI.](#)

SAICA CIRCULAR ON LEASES

By **Bongeka Nodada**, SAICA Project Director: Financial Reporting, Corporate Reporting

Following the publication of IFRS 16 – Leases, SAICA published Circular 5/2018 - Recognition of Lease Income and Expense on a Basis other Than the Straight Line Basis Under IFRS 16 - Leases to explain the requirements of IFRS 16 in respect of the recognition of lease income/expense, on a basis other than the straight-line basis, over the lease term. As a majority of companies are applying IFRS 16, IAS 17 – Leases, will be completely phased during the current year. Due to this, SAICA has updated

Circular 5/2018 to remove historical information which is no longer relevant for the purposes of this Circular post the complete phasing out of IAS 17. As a consequence, Circular 2/2020 - Recognition of Lease Income and Expense on a Basis other Than the Straight Line Basis Under IFRS 16 - Leases has been published. Circular 2/2020 essentially makes editorial changes to the previous Circular and no changes of substance have therefore been made.

HEADLINE EARNINGS CIRCULAR

By **Bongeka Nodada**, SAICA Project Director: Financial Reporting, Corporate Reporting

The SAICA Accounting Practices Committee made a decision during June 2020 to defer the effective date of Circular 1/2019 – Headline Earnings which was published during December 2019.

Circular 1/2019 amended the IFRS 16 – Leases rule in this Circular. The change to the IFRS rule specifically related to the headline earnings treatment of such termination payments. The detailed rules relating to IFRS 16 in Section C of Circular 4/2018 indicated the "Remaining amount of the remeasurement of the lease liability to reflect changes to the lease payments recognised in profit or loss" in headline earnings and the "Net gain or

loss arising from partial or full termination of lease" out of headline earnings. However, it was noted that these two items are not separately identifiable re-measurements as defined as they are not explicitly required by IFRS 16 to be separately disclosed and therefore should not have appeared in the detailed rules table. Accordingly, the detailed rules relating to IFRS 16 Leases were updated. .

Companies are required to apply Circular 1/2019 to interim or annual financial reporting periods ending on or after 31 August 2020. Early adoption of this Circular was also permitted.

COVID-19 AND IMPACT ON FINANCIAL REPORTING

By **Bongeka Nodada**, SAICA Project Director: Financial Reporting, Corporate Reporting

To support preparers with application of IFRS in the context of the covid-19 pandemic, the international standard-setter, the IASB, has published various education materials. The latest publication by the IASB relates to an amendment to IFRS 16 which is intended to make it easier for lessees to account for covid-19-related rent concessions such as rent holidays and temporary rent reductions.

The amendment exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the covid-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. It applies to covid-19-related rent concessions that reduce lease payments due on or before **30 June 2021**. The amendment does not apply to lessors.

The amendment is effective 1 June 2020 but, to ensure the relief is available when needed the most, lessees can apply the amendment to interim or annual

financial statements not yet authorised. Similarly, SAICA published various educational materials to assist companies with the application of IFRS in light of the covid-19 uncertainty and these cover a broad spectrum of topics including financial instruments, revenue, going concern, events after the reporting period, borrowing costs, disclosures of judgments and estimates and many more.

Access these materials from the SAICA website.



... RENT HOLIDAYS AND TEMPORARY RENT REDUCTIONS.



CEASING TO BE RESIDENT IN THE RSA

By **PJ Nel** CA(SA), SAICA Project Director Taxation

South Africa replaced the full exemption from normal tax for South Africans employees working abroad with a limited exemption of R1,25 million. Individuals considered formally emigrating, but they may not have to do so, to escape paying this tax.

The amendment to the exemption, in section 10(1)(o) (ii) of the Income Tax Act (the Act), which took effect on 1 March 2020, forced many South Africans to consider their resident status (for tax purposes). This arises when the individual, still ordinarily resident in the RSA and earning income from employment outside the RSA, wanted to avoid paying tax in the RSA on this income. This article deals with an individual who did not formally emigrate from South Africa and who is working in a country the RSA has an agreement for the avoidance of double tax (a treaty) with.

An individual is resident of the RSA if the individual is “ordinarily resident” in the RSA – see paragraph (a)(i) of the definition of resident in section 1(1) of the Act. Judge Schreiner, in *Cohen v CIR*, in the course of an obiter dictum gave the following meaning to the words “ordinary residence”:

“... his ordinary residence would be the country to which he would naturally and as a matter of course return from his wanderings; as contrasted with other lands it might be called his usual or principal residence and it would be described more aptly than other countries as his real home.”

Judge Goldstone, in *CIR v Kuttel*, adopted Judge Schreiner’s formulation of the issue and held “that a person is “ordinarily resident” where he has his usual or principal residence, i.e. what may be described as his real home.”

In terms of SARS’s practice generally prevailing, a person ceases to be a resident of the RSA when he or she formally emigrates from the RSA.

However, an individual can cease to be ‘resident’ in the RSA without having to emigrate.

A person does not become a resident of a country if

employment income is taxed in that country

It is clear from most treaties, that the term “resident of a Contracting State” does not include any person who is liable to tax in another country in respect only of income from sources in that country. This means that an individual, ordinarily resident in the RSA, who is physically present in another country; in employment there and earning salary in that country, would not be a resident of that other country solely because the employment income is taxed in that country.

So how can a person then cease being a resident without emigrating from the RSA?

A person can cease to be a ‘resident’ of the RSA (commonly referred to as ceasing to be a ‘tax resident’), without having to emigrate from the RSA.

One must first determine, if the individual is, or will be, deemed to be a resident of another country for purposes of the application of any agreement entered into between the governments of the RSA and that other country for the avoidance of double taxation. This is so because the definition of ‘resident’ in section 1(1) of our Income Tax Act, specifically excludes such a person. It follows that a person deemed solely to be a resident of the other country, based on the treaty, will not be a resident (for tax purposes) of the RSA and will then have ceased being a resident of the RSA.

When will an individual then be deemed to be a resident solely of another country?

As far as natural persons are concerned, the term “resident of a Contracting State”, when used in a treaty, generally means any person who, under the laws of the State, “is liable to tax therein by reason of his domicile, residence or any other criterion of a similar nature.” For a South African working there, one would then have to determine, from the other country’s tax legislation, when the individual would be a resident of that other (treaty) country. In some treaties, the test is not ‘liable to tax’ in that country.

When will a person, under the laws of that State, be liable to tax therein because of his or her residence there?

- Persons will be resident in New Zealand, under the

New Zealand Income Tax Act, if they;

- have a permanent place of abode in New Zealand, even if they also have a permanent place of abode elsewhere,
- or are personally present in New Zealand for more than 183 days in total in a 12-month period.
 - A person is automatically resident in the United Kingdom, if either:
 - the person spent 183 or more days in the UK in the tax year (6 April to 5 April the following year);
 - the person’s only home was in the UK – he or she must have owned, rented or lived in it for at least 91 days in total - and must spent at least 30 days there in the tax year.
 - One would be a resident alien of the United States for tax purposes if you meet either the green card test or the substantial presence test for the calendar year (January 1-December 31).

It is common to request the foreign revenue authority to certify that the individual is a resident of that country, in line with the double taxation agreement.

Examples of where the ‘liable to tax’ is not the test:

In the United Arab Emirates (UAE) / RSA treaty, the term “resident of a Contracting State” means any individual who, under the laws of the UAE is considered a resident thereof by reason of that individual’s domicile, residence or any other criterion of a similar nature. A certificate of residence issued to person in employment in the UAE to confirm this. In the case of Qatar, the requirement is that individual must have a permanent home, his (or her) centre of vital interest, or habitual abode in Qatar.

The tiebreaker (or solely resident)

If the individual, under the provisions of the treaty (typically paragraph 1 of the relevant Article) and local law, is a resident of another country, it does not mean that the person automatically ceased being a resident of the RSA. It merely means that the individual is a resident of both Contracting States.

Paragraph 2 will then prescribe when the individual will be a resident solely of one of the contracting countries. The OECD commentary explains that these “special rules ... give the attachment to one State a preference over the attachment to the other State” and are of such a nature that there can be no question but that the person concerned will satisfy it in one State only.

The most common special rule to determine the place of residence uses the concept of permanent home (and the only one described in this article), or the place where the individual owns or possesses a home. The wording in treaties is similar (in the RSA / Qatar treaty) is reads as follows:

“Where by reason of the provisions of paragraph 1 an individual is a resident of both Contracting States, then ... the individual shall be deemed to be a resident solely of the State in which a permanent home is available to the individual ...”



CEASING TO BE A RESIDENT IN THE RSA CONT

The OECD commentary, relating to a permanent home, reads as follows:

“...this home must be permanent, that is to say, the individual must have arranged and retained it for his permanent use as opposed to staying at a particular place under such conditions that it is evident that the stay is intended to be of short duration.”

“As regards the concept of home, it should be observed that any form of home may be taken into account (house or apartment belonging to or rented by the individual, rented furnished room). But the permanence of the home is essential ...”

Many some South Africans working abroad, will still have his (or her) permanent home in the RSA. The tiebreaker recognises this and provides that, “if a permanent home is available to the individual in both States, the individual shall be deemed to be a resident solely of the State with which the individual’s personal and economic relations are closer (centre of vital interests)”.

The day the person is deemed to be a resident of another country, as explained above, the person ceased being a resident of the RSA. A consequence of that is that the person then also becomes liable for the so-called exit tax.

A South African resident does not have to emigrate to cease being a tax resident of the RSA for tax purposes. If the individual is deemed, under the treaty between that country and the RSA, to be exclusively a resident of the other country, the individual would have ceased being a tax resident of the RSA.



... HIS ORDINARY RESIDENCE WOULD BE THE COUNTRY TO WHICH HE WOULD NATURALLY AND AS A MATTER OF COURSE RETURN FROM HIS WANDERINGS; AS CONTRASTED WITH OTHER LANDS IT MIGHT BE CALLED HIS USUAL OR PRINCIPAL RESIDENCE AND IT WOULD BE DESCRIBED MORE APTLY THAN OTHER COUNTRIES AS HIS REAL HOME.



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A high-angle photograph of a person's hands working on a wooden desk. The person is wearing a dark suit jacket, a white shirt, and a watch. Their right hand is pressing buttons on a black and silver Sunway calculator, which displays '1542'. Their left hand is resting on a blue tablet. The desk is cluttered with various items: a black pen, a small white notepad, a black stapler, and some papers. The background is slightly blurred, showing more of the desk and a computer monitor.

INSURERS' IFRS 17 IMPLEMENTATION: CHALLENGES AND INSIGHTS

By **Kedibone Pilusa**, CA(SA), SAICA Project Director MIB Technical

The implementation of IFRS 17 implies a major transformation in actuarial and finance reporting processes, systems and data. We recently hosted an event where some of the challenges and insights were discussed

The insurance industry saw the effective date of the IFRS 17 Insurance Contract standard being deferred by two years from the initial effective date to now being from annual reporting periods beginning on or after 1 January 2023. This has mainly been due to amendments aimed at helping companies implement the standard and make it easier to explain their financial performance. Although the deferral could mean additional implementation costs being incurred, it has been well received by the industry as there was pressure to finalise their systems and the additional time provides an opportunity to parallel-run IFRS 17 and note differences and impact from IFRS 4, as well as ensuring the processes are not rushed.

One of the main challenges in implementation has been the shortage of resources and skillsets, along with the risk of hiring resources that would be redundant post implementation. The use of consultants has provided an effective solution and they are utilised more technology – that is, system built and automation with work on policies and methodologies mostly done internally. System needs within the industry are unique and depend on entity size, with some building new systems and refining, while others are refining off-the-shelf systems. The industry would ideally like to have a fully automated system for reporting to ensure minimal manual interventions and an effective control system and environment.

The early involvement of auditors is necessary to ensure any queries on the policies or systems are addressed timeously. However, given the complexities of the standards, at times this poses a challenge of lengthy ongoing dialogue and debates. These are being mitigated by internal robust discussions and considerations and bringing in consultants and/or auditors at a stage where a draft policy can be considered. The use of consultants and/or auditors brings about independence considerations, as the industry has a small pool, with the Companies Act limiting the audit and non-audit services offerings and its requirements on rotations. This challenge is aggravated by the industry having to now consider and plan for the joint audit requirements which the Prudential Authority is in the process of finalising, as well as the Independent Regulatory Board for Auditors implementing mandatory

audit firm rotation effective from 1 April 2023.

Given the demographics of groups and subsidiaries, there is always a concern with head office taking the lead with implementation and the subsidiaries being left out of discussions. In some instances this is addressed by ensuring that they bring everyone along the journey through subsidiaries having project owners who are part of the policy discussions to ensure alignment.

With IFRS 9 Financial Instruments being effective for reporting periods beginning on or after 1 January 2018, the banking industry, which was the most impacted by the standard, had concerns around transitional numbers. This brought about lessons for the insurance industry and there are considerations of ensuring the parallel run for IFRS 17 and IFRS 4 starting as early as possible to ensure there is an analysis of the impact of the changes and also the ability to determine transitional numbers. This also raises concern around the need for educating business as well as the market on the difference between the two standards and the impact IFRS 17 will have on reporting.

In making communication effective for the market, there is a need to have an idea of what the transitional number will be, as this has an impact on disclosures utilised by the market and also highlights the overall financial impact of the new standard. It was also refreshing to hear that although some KPIs might not be required by IFRS 17 the industry is considering retaining them as they are deemed relevant metrics needed to make financial decisions, an example being the gross written premium.

Transitional numbers impact engagements with SARS for tax consideration purposes, as the numbers are needed to assist National Treasury with amending any legislation. Ideally, communicating these before the budget cycle would assist in ensuring they are factored into any tax legislation amendments prior to the standard implementation date.

With all the changes that the industry has recently went through, from of the new Insurance Act, significant accounting standards being effective, IFRS 9, IFRS 15 Revenue from contracts with customers and IFRS 16 Leases as well as the introduction of , conduct standards from regulators, we look forward a time when the dust settles for the industry to 2023 and to beyond 2023 when reflecting on the effectiveness of implementation and the actual impact the standard has had on reporting and investor decisions.

CONTINGENCY FEE ARRANGEMENTS: AN OVERVIEW

By **Richard Scott**, Richard Scott Attorneys



IF THE CLIENT IS RESPONSIBLE FOR FUNDING DISBURSEMENTS, THE LEGAL PRACTITIONER SHALL ACCOUNT TO THE CLIENT FROM TIME TO TIME IN RESPECT OF MONIES DISBURSED...

Since the Legal Practice Act 28 of 2014 (the LPA) came into effect on the 1 November 2018, the legal profession has undergone significant changes, including the distinction between attorneys and advocates being removed and a new Council, namely the Legal Practice Council (the LPC) taken over the regulation of all legal practitioners. One thing that has not changed is the tight regulation of contingency fees.

The South African courts require strict compliance with the Contingency Fee Act 66 of 1997 (the Act) to prevent abuses on the part of unscrupulous practitioners willing to take advantage of their clients. Recent judgments reflect contingency fee agreements being set aside where the terms of these agreements have been held to be invalid and unenforceable.

Background to the Act

The Act was promulgated to facilitate access to the court for a large number of the population who cannot afford the considerable cost of legal services, which is a fundamental right. Many of these relate to those injured in motor vehicle accidents, who enter into contingency fee agreements with legal practitioners in damages claims against the Road Accident Fund. By permitting “no win no fees” agreements, the legislature has made speculative litigation possible.

The Act provides for two forms of contingency fee agreements which legal practitioners may enter into with their clients. The first is a “no win no fees” agreement and the second is an agreement subject to limitations. In both cases, the contingency fees may not exceed the normal fees that the legal practitioner would charge by more than 100% and in the case of successful claims, the fee may not exceed 25% of the total amount awarded or any amount obtained by the client in the course of the proceedings, excluding costs.

The “success fee” referred to in section 2(2) of the Act is the total of the “normal” fee and the “higher than normal fee”. The limitation and cap referred to in the section applies to the total fees charged by a legal practitioner/(s) in any one claim.

Requirements of the Act

The Act has detailed requirements for contingency fee agreements. Any contingency fee agreement between legal practitioners and their clients which is not covered by the Act is illegal.

Section 3 of Act stipulates that contingency fee agreements are to be completed in all respects prior to signature by the client and all the legal practitioners (attorneys, correspondent attorneys and advocates) who are parties to such agreement and any ancillary agreement shall be attached to the agreement. A power of attorney is to be annexed to the contingency fee agreement.

The legal practitioner shall, at the time of accepting the mandate disclose to the client in writing the tariff of normal fees in respect of attendances pertaining to the proceedings. In addition, the legal practitioner who is party to such agreement must annex a copy of a cost estimate in terms of section 35(7) of the Legal Practice Act. Disbursements to be made or to be incurred by the practi-

tioner must be recorded in the contingency fee agreement.

If the client is responsible for funding disbursements, the legal practitioner shall account to the client from time to time in respect of monies disbursed during the conduct of proceedings and in so doing will be entitled to charge interest on monies disbursed.

Termination of Mandate and agreed settlements

In the event of the client terminating a mandate with the legal practitioner before proceedings have been finalised and before affording the legal practitioner the opportunity to achieve success or partial success, the client shall be liable to pay the fees and disbursements paid or incurred as at the date of termination of the mandate.

Should the client dispute the liability to the legal practitioner whose mandate has been terminated, the legal practitioner taking over the proceedings shall be obliged to advise the first legal practitioner that there is a potential dispute regarding fees and/or disbursements.

Should a dispute arise as to the sharing of fees, both legal practitioners shall prepare attorney and own client bills of cost for taxation. Such a dispute shall be referred to the Legal Practice Council (the LPC) whose decision shall be final and binding on the parties concerned.

In the case of a settlement being reached, any contingency fee agreement shall be made an order of court if the matter is before the court.

The power of the courts to adjudicate upon and make orders in respect of matters concerning the conduct of a legal practitioner in no way denigrates the LPC’s ability to deal with such matters in terms of the Rules.

CONCLUSION

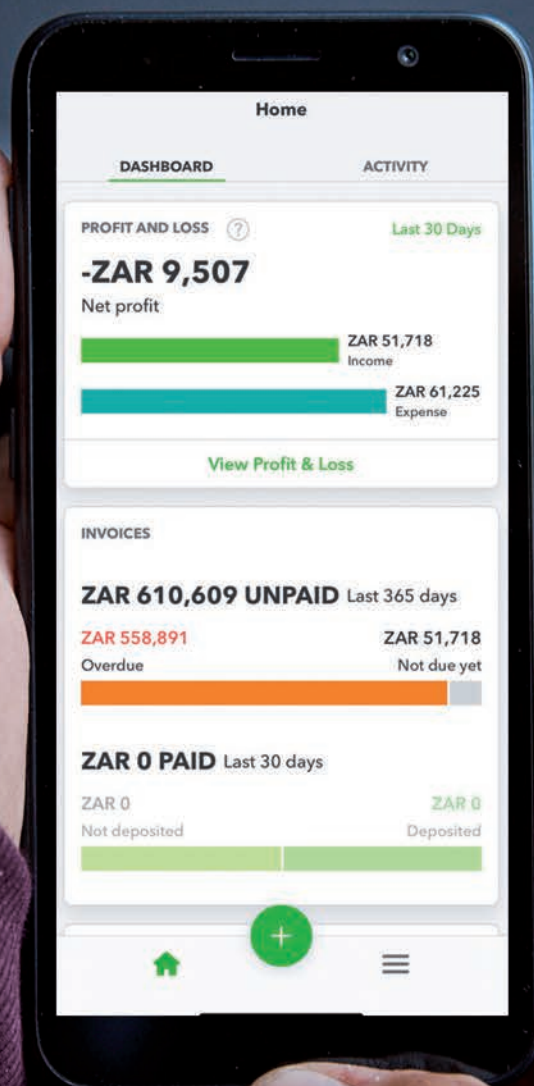
Auditors that are involved in the audit of legal practitioner trust accounts are reminded that transactions involving contingency fee agreements require specialised knowledge. Auditors are also alerted to the heightened audit risk associated with such transactions. Prior to undertaking engagements that include the audit of transactions involving contingency fee agreements, the auditor should ensure that s/he has the required knowledge of the legislative requirements and be on high alert in ensuring that all the legal requirements have been complied with.





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REVISED CONCEPTUAL FRAMEWORK FOR FINANCIAL REPORTING

By **Bongeka Nodada**, SAICA Project Director: Financial Reporting, Corporate Reporting

The International Accounting Standards Board (IASB) published the revised Conceptual Framework for Financial Reporting (Conceptual Framework), a comprehensive set of concepts for financial reporting, during March 2018. The revised Conceptual Framework was effective immediately for the IASB but effective for annual periods beginning on or after 1 January 2020 for preparers who develop an accounting policy based on the Conceptual Framework. Some of the main changes introduced to the Conceptual Framework include:

- The addition of a new chapter that provides a description of the reporting entity and its boundary. Moreover, this new chapter also distinguishes between consolidated, unconsolidated and combined financial statements.
- The definitions of the elements of financial statements including assets, liabilities, income and expenses have been refined.
- The recognition criteria have been updated and new guidance on derecognition has been provided.
- The guidance on the measurement has been expanded. The revised Conceptual Framework

describes what information measurement bases provide and explains the factors to consider when selecting a measurement bases.

- Concepts and guidance on presentation and disclosure including when to classify income and expenses in other comprehensive income have been incorporated in the Conceptual Framework.

Companies applying International Financial Reporting Standards (IFRS) that used the previous version of the Conceptual Framework in developing accounting policies or are considering using the Conceptual Framework should assess the nature and extent to which the revisions will have an impact on their financial statements.

The revised Conceptual Framework is not applicable to the companies applying the IFRS for SMEs Standard.

The revised Conceptual Framework can be downloaded from eIFRS.

eXTENSIBLE BUSINESS REPORTING LANGUAGE (XBRL)

By **Bongeka Nodada**, SAICA Project Director: Financial Reporting, Corporate Reporting

During October 2020, the Companies and Intellectual Property Commission (CIPC) launched its updated XBRL Taxonomy includes Generally Accepted Accounting Practice (GRAP) Taxonomy applicable and also reflects the changes made to IFRS. For the first year of application, which is October 2020 to September 2021, state-owned companies may file their GRAP financial statements to the CIPC on a voluntary basis.

Companies should therefore ensure that the correct version of the CIPC Taxonomy is being used when filing XBRL financial statements to the CIPC.



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THE IMPACT OF COVID-19 ON PRIOR PERIOD ERRORS

By **Hayley Barker Hoogwerf**, SAICA Project Director: Assurance

With the accumulation of uncorrected prior period errors, there is always the risk that these errors will become material, which then triggers the need for management to go back and correct these errors. This entails restating the opening balance of the retained earnings as well as the assets and liabilities for the earliest periods presented. Where there is retrospective adjustment, an entity is also required to present three statements of financial position. This is a significant amount of work and is not a position that either the preparer or the auditor wish to find themselves in. Yet, this situation is sometimes brought about by circumstances beyond the control of management, such as the impact of the COVID-19 global pandemic.

The theory

Management are tasked with preparing financial statements in accordance with an appropriate financial reporting framework; most commonly International Financial Reporting Standards (IFRS) or IFRS for Small and Medium-Sized Entities (IFRS for SMEs). This financial reporting framework includes the concept of materiality. International Accounting Standard (IAS) 1, Presentation of Financial Statements defines material as omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surround-

ing circumstances. The size or nature of the item, or a combination of both, could be the determining factor.

ISA 320, Materiality in Planning and Performing an Audit (ISA 320) requires the auditor to apply the concept of materiality in planning and performing an audit of financial statements. It is acceptable practice for immaterial errors not to be adjusted for in the preparation of the financial statements. The auditor tasked with expressing an opinion on the fair presentation of the financial statements maintains a record of uncorrected errors to ensure that these are acceptable in terms of the auditor's determination of materiality. In maintaining this record of uncorrected errors, the auditor is required to consider the effect of uncorrected misstatements relating to prior periods on the current year financial statements.



MANAGEMENT ARE TASKED WITH PREPARING FINANCIAL STATEMENTS IN ACCORDANCE WITH AN APPROPRIATE FINANCIAL REPORTING FRAMEWORK.

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors (IAS 8) requires management to correct material prior period errors retrospectively in the first set of financial statements authorised for issue after their discovery. ISA 705 (Revised), Modifications to the Opinion in the Independent Auditor's Report (ISA 705 (Revised)) requires the auditor to modify the opinion in the auditor's report when the auditor concludes that, based on the audit evidence obtained, the financial statements are not free from material misstatement.

Impact of COVID -19

IAS 1 indicates that materiality depends on the nature and magnitude of information, or both. The auditor's determination of materiality involves the exercise of professional judgment where a percentage is often applied to a chosen benchmark as a starting point. The COVID-19 global pandemic has negatively impacted on the financial position and financial performance of entities. Business activity has declined significantly, resulting in a reduction in revenue. This, coupled with an increase in expenditure in the form of write downs and

impairments, has resulted in a reduction in the reported net profit. In terms of the statement of financial position, impairments and other fair value adjustments have resulted in a reduced asset base.

From both the side of management and that of the auditors, a reduction in the magnitude of the financial information, will impact on the determination of materiality. The dilemma that some entities may find themselves in is a significant reduction in materiality, which may give rise to the need for correction of prior period errors. This translated into the need to restate the financial statements and comply with the onerous requirement of providing three statements of financial position.

Going forward

Financial reporting is done after the fact, in that it largely consists of the reporting of historical financial information. With the full impact of the COVID-19 global pandemic yet to be seen in financial reporting, the magnitude of prior period errors and the impact of the reduction in the determination of materiality is yet to be seen. It may well be that the financial markets see a significant increase in the issue of restated financial statements because of prior period errors becoming material in the latest financial year.





HOW TO OPEN NEW SERVICE OPPORTUNITIES THROUGH THE ART OF QUESTIONING – AND LISTENING

By **Mark Lloydbottom**

In this six-minute read, Mark Lloydbottom explains how to use questioning to uncover unmet – and often unidentified – client needs – and he provides a list of over 30 great questions to get you started.

It may sound obvious, but to build high-impact professional relationships, it is important to provide a service that makes the client aware of things they don't already know. That's why non-compliance, business consultancy-type services will almost always be perceived to be of higher value by the client than standard compliance work.

Let's look at this from the perspective of a visit to the doctor.... You have during the last few days been sneezing. Probably for the first couple of days you didn't bother to take any medication thinking that your

ailment would surely pass. But the sneezing, aches and headaches continued. You were finally persuaded to head for the doctors, and, while there, you were informed, not unexpectedly, that you had influenza. You thank the doctor for the prescription and the diagnosis and leave heading for the pharmacy. How did the visit rate? It was just what you expected – nothing unexpected, no real surprise!

Now another scenario.... You feel a few chest pains that persist more than you expect and maybe you respond a little more quickly to making an appointment to see the doctor. The doctor asks a few questions, takes your blood pressure, s/he looks a little concerned before announcing that you are to be referred to a hospital heart consultant.

Now this diagnosis and the action being advised are taking you into the unknown, and, by the time you meet the consultant, you are ready to answer questions, listen and ensure you understand what the problem is and what your options are to fully recover.

I liken the first scenario to our compliance work, where the outcomes are generally known in advance. In the second scenario, you are entering unknown territory, and you may have been wondering if your symptoms are life-threatening.

How does this compare with your services and your professional expertise?

When you prepare financial statements, it could well be that you confirm the results the client was expecting – the client had looked at the trial balance results from their computer systems and had concluded that they were about 10 per cent up on the previous year. The fact that you reported profit was up by 12 per cent was not overly material to the client.

You calculate the tax, which the client had already estimated would be last year's tax bill plus tax at the higher rate on the additional 10 per cent profit. So, maybe the client underestimated a little. The point is that the unknowns we used to hold sway over are not really unknowns anymore. However, the client is interested to find out how much your fee is!

The client now has an anchor in his/her mind that your service revolves around confirming what they know and that the work you perform relates to times gone by rather than the future.

I do not seek to downgrade the value of your services, merely to provide an alternative perspective.

The reality is that most firms do not generate more than 10 per cent of their fees from non-compliance services. Those firms that do probably have specialists operating in areas other than compliance work. But it is these services where you are exploring more unknown areas, where potentially there is greater pain and greater value in addressing the pain.

Opening up new (non-compliance) service opportunities with your questions

The difference between a good accountant and a

great accountant is that a great accountant asks better questions than a good accountant. Listen to what your client is saying and, as you engage in the relationship, ask more questions

In the words of the father of management theory, Peter Drucker: "My greatest strength as a consultant is to be ignorant and to ask questions." It is wise, as an adviser, to ask better questions rather than to seek to give better answers. Your clients generally have all the answers; the key is to ask the questions they haven't thought of. In a download, at the end of this blog, I provide a list of over 30 questions to get started.

The purpose of questions is to highlight any issues that hamper your client from achieving what he or she wishes to accomplish. I often say that questions are like seeds – plant them and they will grow.

Your conversation may lead to your client seeking help in any of the areas below, among others:

- ▶ Cash-flow projections
- ▶ Management accounts
- ▶ Profit enhancement
- ▶ Debt management
- ▶ Reviewing your investment portfolio
- ▶ Human resources
- ▶ Payroll services
- ▶ Tax mitigation
- ▶ Regular consultancy/strategy meetings
- ▶ Succession planning meetings
- ▶ Business valuations
- ▶ General business advice meetings

The key to using questions with clients is to avoid having a list of them in front of you. If you do, make sure you only glance at this occasionally. Using questions in this manner will not only stunt the flow of the conversation, it will limit your freedom to ask 'drill-down' questions. These are the follow up questions to the information provided by your client in response to your last question. Along the journey of drilling down, you are likely to dip into your question bank so that the meeting has a natural flow to it.



I OFTEN SAY THAT QUESTIONS ARE LIKE SEEDS - PLANT THEM AND THEY WILL GROW





HELPING YOU DEAL WITH BUSINESS CHANGE

By **Cedric Tyler**, Business Genetics

The times they are a changing'.... constantly and relentlessly.

Sometimes the change is almost imperceptible and then, every so often, it's positively, monumental.

In times of slow change, we have the luxury of time to evolve, adjust and refine our business operations. In times of somewhat traumatic upheaval, time is not on our side, and we must either rapidly adjust the way we operate our business or face potential decline.

Change has no limit or barriers, it can range from having to radically reduce office costs and transitioning employees to a largely home office environment (see Deloitte's recent announcement to dramatically reduce office space), or ensuring we have the latest ERP software to increase productivity.

Change is unforgiving and entirely unsympathetic to our history, aspirations, or prior success. And it is fickle and unrelenting.

Regardless, the question is: "are you and is your business equipped to deal with change?"

Please ponder this question for a moment.

Are staff meetings your go to change agent?

Perhaps, a new incentive scheme? Or even a shiny new suggestion box (remember those!)? Or simply trial and error change efforts?

Some of these may reap some superficial rewards, but what if change could be proactively engineered, and almost guaranteed to bring about meaningful and high impact bottom line improvements, often on an unprecedented scale?

For some time now, academics and industry leaders have been hard at work refining and honing advanced methods and techniques that can readily be adopted to support the understanding, improvement and transformation of a business.

In fact, many management gurus (Deming, Senge and even Albert Einstein) are of the opinion that the most important skill a business can have is the ability to adapt and change. This makes perfect sense. So, let's pose the question again: "are you equipped to understand

your business operations and adjust to the new business environment?"

Even if you are swaying towards answering a tentative "yes", there is a possibility that you believe that you could still use a little help.

Given recent advancements in the process and management science fields, as well as an ever-expanding Body of Knowledge (BOK), we have never been more able to leverage methods and technology to support and improve our businesses. Simply put there are New Ways of Working (N-WOW).

The tools to aid us have come of age and are rapidly evolving to be easier and easier to use. We have entered the age of CABD or Computer Aided Business Design. It is now feasible to schematically view any business operation in five dimensions, looking at Activities, Responsibilities, Locations, Information, Timing, as well as Workflow.

Newer technologies allow us to depict these aspects of the business with easy to use software, and understand the impact of changing these business dimensions.

WHO WHAT WHERE WHEN WHICH

The Five W's (WHO, WHAT, WHERE, WHEN, WHICH Data) provide a complete and structured view of our business – BusinessGenetics, Inc.

Using such technology, one can easily create multiple To-Be (or Could-Be) views of your business, to see which might be the best go forward option to support your particular business strategy.

Costs can be associated with each of the dimensions, which allow us to proactively ensure our business will operate within budget tolerances and be profitable. And this can and must be done proactively, rather than looking in the rear-view mirror as the financial period ends.

It is even feasible to create Business Model Libraries or 'Blueprints' for industries. One might even embed best practices and regulatory requirements into a set of models for industry members to share and collectively refine. This is already being done by forward thinking organisations.

HELPING YOU DEAL WITH BUSINESS CHANGE CONT

Besides embedding any useful metric into the model (for example Key Performance Indicators, costs, skill levels, education qualifications, activity durations, etc.), you can also easily add business risks and controls, as well as denote compliance (or non-compliance) to laws and regulations. This is particularly useful to share with regulators, and of course your staff.

The data contained in these business models should be readily accessible, which will further allow for 'interrogation' of the Five W's data collected.

For example, it might be very useful to extract a report to show WHO does WHAT in our business, to ensure division of labour, a balanced workforce, or to ensure accountability of Activities.

Alternately, we might wish to know WHO uses WHICH information, to ensure we are using the correct set of data/reports throughout the business.

There are myriad of questions we might 'ask' the system, in an attempt to understand and improve operations.

We might also decide to extract information from the modes (database) to aid with the transformation of the business. It is a relatively simple process to create extracts of new Job Descriptions, or Operating procedures and even training input, to facilitate the implementation of any changes you wish to make in your business.

Lastly, the methods and tools being described in this article are being used at an ever-faster rate amongst leading corporations and government bodies, and the demand for the capability and skill to support such initiatives has never been higher.

To conclude, we now have more formal theories, methods and tools that enable us to understand, plan and predict business performance at an unprecedented level. These approaches are automated and allow us to simulate and share our aspirations for future business operations.

The alternative of trial and error operations, or 'changes on the fly', is no longer viable, so it would be prudent for leaders to deploy this type of capability into the organ-

isation should they want to ensure proactivity, sustainability and longevity in their business.

Leading Business Schools (for e.g. Rhodes Business School, Fischer School of Business at Ohio State University, the University of Cape Town and the Daniels College of Business at Denver University) have all included these advances into their MBA or Executive MBA Programmes.

We are truly at the dawn of a new age of business planning tools and the benefits to be reaped are enormous.

Please visit www.businessgenetics.com for further details. SAICA members may enter their details on the website and receive a comprehensive Practice in a Box (Blueprint of all core processes), software to view and change the Blueprint, as well as access to instructional videos, for a nominal, month-to-month fee. Watch a webinar that was recently hosted by Business Genetics: <https://livestream.com/saica/usib001a>

Link to book: <https://www.wiley.com/en-za/Business+Genetics:+Understanding+21st+Century+Corporations+using+xBML-p-9780470066546>



WE ARE TRULY AT THE DAWN OF A NEW AGE OF BUSINESS PLANNING TOOLS AND THE BENEFITS TO BE REAPED ARE ENORMOUS.



ETHICS

PERSONAL ETHICS

Citizenship through Socio-Economic Development: The Hope Factory

Are you looking for a relevant, strategic and meaningful SED solution? Our COVID-19 SED relief initiatives aim at helping Start-ups to become resilient through good personal finance and business decisions during the pandemic.



BUSINESS ETHICS

The Ethics Office Handbook – detailed guide to manage the ethics in your organisation

This book provides a practical perspective on the management of ethics in organisations. It is significant that this perspective spans multiple industries and covers both the private and public sectors. We have witnessed a growing demand for guidance on the practical elements of managing ethics in businesses



Five simple things leaders can do to boost Organisational Ethical Culture

Thought leadership Podcast to aid leaders implement ethics programmes in their organisations.



SAICA Alert: ETI schemes

All members in practice are urged to take note of the alert issued by SAICA regarding ETI schemes. SAICA's communication in this regard can be downloaded here



Ethics case studies

Detailed case studies providing insightful discussions on ethics matters



SME risk management: sustainability

This paper – the second one in our SME risk management series – aims to explain how and why sustainability is important for SMEs.





ETHICS

Anti-Money Laundering: The Basics

IFAC publication explaining money laundering, the risks professional accountants are facing and how to protect the public interest.



Anti-Money Laundering: The basics (Instalment 2)

IFAC publication explaining money laundering, the risks professional accountants are facing and how to protect the public interest.



PROFESSIONAL ETHICS

IRBA Committee for auditing standards and ethics

The IRBA Issues Conforming Amendments to the International Standards as a Result of the Revised IESBA Code and also the Updated Illustrative Auditor's Reports



Revisions to Part 4B of the IRBA Code to Reflect Terms and Concepts Used in International Standard on Assurance Engagements 3000 (Revised)



Complimentary Ethics Training

The complimentary SAICA Ethics series webinar recordings are available. In this series SAICA reminded all leaders of their responsibility towards creating an ethical culture.



Be Accountable - Podcasts

SAICA Ethics podcast series with Gareth Cliff on cliffcentral.com. The October session features Mandi Olivier on ethics as part of the development of aspiring CA's.



The only way is ethics

Leaders from large organisations share how Chartered Accountants can steer firms the right way.



Ethics case studies

Insightful video series by the Institute of Singapore Chartered Accountants to increase ethical awareness of all CA's



Be Accountable - Podcasts

SAICA Ethics podcast series with Gareth Cliff on cliffcentral.com. The October session features Mandi Olivier on ethics as part of the development of aspiring CA's.



Exploring the IESBA Code

A twelve-month publication series highlighting important topics in the Code. Each installment focuses on a specific aspect of the Code using real-world situations in a manner that is relatable and practical.



Applying the Code's conceptual framework

IFAC guidance on how to apply the Code's conceptual framework in COVID-19 circumstances: scenarios in taxation and valuation services



Revision to the Code: Role and Mindset factsheet released

IESBA releases new role and mindset fact sheet providing an overview of the recent changes to the International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code).



SAICA Has Updated The SAICA Code Of Professional Conduct (Revised November 2020). You can access the newest version of the Code here.





NEED TO KNOW - TECHNICAL UPDATES

COVID-19 RESOURCE PAGES

SAICA resources



IAASB resources



IFAC resources



IESBA resources



IFRS resources



IRBA resources



AUDIT AND ASSURANCE

MAINTAINING AUDIT QUALITY WHILE AUDITING REMOTELY

This article provides an overview of how auditors maintain the required level of audit quality while working remotely.



STATUS UPDATE - THE IAASB'S PROJECT ON QUALITY MANAGEMENT

This SAICA article provides an update on ongoing IAASB activities intended for maintaining and even enhancing the desired level of audit quality.



IAASB VIDEO CONFERENCE: ISQM 1 AND ISA 220 (REVISED) DISCUSSION

The IAASB has approved the revised ISQM 1 and ISA 220. This video conference was held prior to the approval in September 2020, and explains the draft amendments and explains through practical discussions what auditors can expect.



ISQM1&2 APPROVED BY IAASB

IAASB Quality Management Standards have been approved. Effective 2022. See short introductory video focussing on application for SMP's.



PROACTIVE QUALITY MANAGEMENT

With new standards in place, proactive quality management will underpin the next era of audit transformation.



IAASB BOARD MEETINGS - RECORDINGS

All IAASB meetings have been conducted virtually during 2020 due to COVID-19. Members can register as observers on their website



All members can listen to recordings of the proceedings which was broadcasted live on Youtube.



Agenda with all items on discussion and set for approval can be found here.



ISRS 4400 (REVISED) - AGREED-UPON PROCEDURES (AUP) ENGAGEMENTS - SEMINAR

This recording will assist auditors in understanding the key principles from ISRS 4400(Revised) and the practical implication from the changes made.





NEED TO KNOW - TECHNICAL UPDATES

COMPLIMENTARY TRAINING FOR CPD PURPOSES

Complimentary training recordings available on a wide range of topics, including all TechTalk sessions and enabling competencies webinar recordings.



IMPACT ON AUDITS DUE TO COVID-19: RELATED PUBLICATIONS FOR ACCOUNTING ESTIMATES AND INTERIM REPORTING

This communique alerts auditors to publications regarding the possible impact of the COVID-19 pandemic on Accounting Estimates and Interim Reporting.



WEBCAST: 2020 LEGAL PRACTITIONER'S TRUST ACCOUNTS INFO SESSION

The recording of the SAICA information session which aims to assist practitioners in obtaining an overview of the requirements relating to the legal practitioner's trust accounts is available on the SAICA website.



IRBA BOARD ADOPTS NEW AUDITING STANDARDS

International Standard on Related Services 4400 (Revised): Agreed-Upon Procedures Engagements



International Standard on Auditing 315 (Revised): Identifying and Assessing the Risks of Material Misstatement



LEGAL PRACTICE COUNCIL (LPC) ADVISORY

Retention period for documents and place of retention Legal practitioners are advised that amendments will be made to the LPC Rules to provide for a retention period of 7 years for all categories of documents and to permit off-site storage of documents.



SAICA UPDATES ITS FREQUENTLY ASKED QUESTIONS

The impact of COVID-19 on audit considerations SAICA has updated its FAQs to include questions on the auditor's determination of materiality and the auditor's consideration of laws and regulations.



SAICA IS A MEMBER OF THE INTERNATIONAL VALUATION STANDARDS COUNCIL

SAICA is a member of the [International Valuation Standards Council \(IVSC\)](#), the global not-for-profit organisation responsible for setting International Valuation Standards (IVS) and developing the valuation profession worldwide. Members and associates of SAICA can access the latest International Valuation Standards via the [SAICA website](#). Members and associates can also submit technical enquiries in relation to valuations via the [Technical Queries page](#) on the IVSC website.



AUDITS OF LESS COMPLEX ENTITIES:

IAASB released a communique on the audits of less complex entities.



KEY TAKEAWAYS FROM IAASB'S ROUNDTABLE SERIES ON FRAUD AND GOING CONCERN

The IAASB recently hosted three virtual roundtables with experts and leaders exploring issues and challenges related to fraud and going concern.



FINANCIAL REPORTING

COMPREHENSIVE REVIEW OF THE IFRS FOR SMES

The fourth webcast to help stakeholders in preparing their submissions on the Request for Information has been released.



SAICA CIRCULAR ON LEASES UPDATED

Editorial changes have been to this Circular to remove historical information which is no longer relevant.





NEED TO KNOW - TECHNICAL UPDATES

WHAT DOES ALIGNMENT OF IFRS FOR SMES WITH FULL IFRS STANDARDS

Darrel Scott CA(SA) discusses the review of the IFRS for SMEs standard and his views on alignment with full IFRS Standards.



XBRL

Obtain updates on the XBRL programme from the CIPC website and access the recording from SAICA's XBRL events from Click2Start



IFRS 16: A NEW ERA OF LEASE REPORTING ARRIVES

IFRS 16 is finally in its implementation phase. Are you ready for the wholesale implications of the new reporting requirements?



COVID-19 EDUCATIONAL MATERIAL

This educational material published by SAICA's Accounting Practices Committee (APC) is prepared to highlight the requirements within IFRS as well as the existing issued guidance that are relevant and useful for entities considering how the pandemic affects their accounting, for financial periods ending on or after 31 December 2019.



APPLYING IFRS STANDARDS DURING COVID-19

This article provides an overview of the key financial reporting considerations that may impact auditors in the COVID-19 environment.



LEGAL AND GOVERNANCE

SAICA'S NEW BY-LAWS

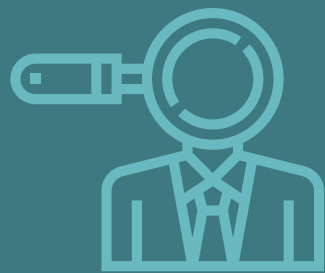
SAICA's new by-laws are effective from 1 June 2020 and include enhancements to the Institute's disciplinary process.



CIPC NOTICES

View the latest CIPC Notices





PRACTICE MANAGEMENT

SAICA'S RESPONSE TO MEMBERS' QUESTIONS

Following the SAICA AGM that was held on 28 May as well as the subsequent CEO Roadshows, SAICA has compiled all the questions and answers that were raised at these events and posted them on the website. [Follow this link](#) for questions raised at the AGM and [this link](#) for questions raised at the various CEO roadshows.

CHARTERED ACCOUNTANTS WORLDWIDE NETWORK MEMBER LOGO



Show the world that you are a Chartered Accountants Worldwide Network Member by using the new CAW Network Member logo. In order to download the CAW Network Member logo, follow [this link](#).

WEBINAR RECORDINGS AVAILABLE: HOW SMALL FIRMS CAN EVOLVE IN THE COVID-19 ENVIRONMENT

[This webinar focus on the recently launched Practice Transformation Action Plan.](#)

IFAC SMALL BUSINESS CONTINUITY CHECKLIST



[The checklist aim to help small businesses navigate today's crisis and plan for tomorrow's 'new normal'.](#)

SOFTWARE TOOLS TO ASSIST IN RUNNING YOUR BUSINESS

[A SAICA document with a non-exhaustive list of software tools available to assist in running a business, virtually or from the office.](#)

SMME: UNDERSTANDING THE LANDSCAPE



[With this report SAICA hopes to create awareness of some of the solutions available to Small, Medium and Micro Entities, and how they can access it.](#)

MANAGING IN EXTREME UNCERTAINTY

[Comprehensive article providing insights on how managers can change their approach to practice management during extreme uncertainty](#)

USING SPECIALISTS IN THE COVID-19 ENVIRONMENT

[This publication provides guidance to professional accountants in determining when there might be a need to use the services of a specialist in serving their clients in the COVID-19 environment.](#)

TIPS FOR HIRING REMOTELY

[An article providing 11 tips for hiring staff remotely.](#)

IFAC WEBINAR: HOW SMALL FIRMS CAN EVOLVE IN THE COVID-19 ENVIRONMENT



[Preparing future ready SMP's \(13 July 2020 Session 1\)](#)

IFAC WEBINAR: HOW SMALL FIRMS CAN EVOLVE IN THE COVID-19 ENVIRONMENT



[Preparing future ready SMP's \(15 July 2020 Session 2\)](#)

GLOBAL STATE OF SMALL BUSINESS

[The Global State of Small Business Report, is an ongoing research collaboration to survey small and medium-sized businesses around the world over a six-month period in the context of COVID-19](#)



TECH TALK - TECHNOLOGY

Shaping the Practice of Tomorrow – Podcast series

This nine-part podcast series is designed to help our members in practice take full advantage of the digital disruptive opportunities sweeping the accounting profession.



Preparing future-ready professionals

Accountancy Skills Evolution: Impact of COVID-19 & the Path Forward.



IFAC Whitepaper: Accountancy Skills Evolution

This whitepaper highlights accelerated ways of working, impact of technology, practices that align to new societal demands, and the right balance of skills.



PAO Digital Transformation series

Digital transformation is the long-term objective and endeavor for PAOs.



Building a crypto sub-ledger

Detailed seminar explaining the technical problem of building a crypto sub-ledger



Integrating tech and well-being

A Podcast discussing the vital role of technology executives



The product shift

Technology is rapidly changing the world. This article provides insights on how to rewire your organisation to maximise business value.



AI for Accountants

With artificial intelligence promising to be a gamechanger for accountancy, this article discuss how accountants can incorporate AI in their practices.



Descriptive, predictive and prescriptive analytics

Article discussing the differences between descriptive, predictive and prescriptive analytics.



What's next? Reworking the finance operating model

Podcast summarising how finance operating models are being impacted by process simplification and standardization, technology, workforce changes, and more



Managing a virtual team

Top tips from experts on managing a virtual team



COVID-19 impact on the way accountants work

Article discussing how the pandemic has impacted the way accountants work



Taking AI to the next level

Article discussing how to harness the full potential and value of AI while managing its unique risks



Data security in the age of working from home

Data security is more important than ever when you and your team are working from home. This podcast shares insights on how to improve data security in the age of COVID-19.



Digital transformation

Top tips from finance professionals



Facilitating business diversification and technology adoption for SMPs

This study found that some professional services subject to high demand are in short supply. The report aims to present the implications on possible approaches that SMPs can take to meet these changing demands.

