

Small & Medium Practices

quarterly news.....



SMP DIVISIONS CONTACT DETAILS:

JEANNE VILJOEN
Project Director SMP
011 621 6688
jeannev@saica.co.za or
smp@saica.co.za



SMALL & MEDIUM PRACTICE NEWSLETTER • QUARTER 1 • 2018

inside...

Assurance engagements on attorneys' trust accounts	2	
National minimum wage bill and domestic workers minimum wage	4	
Why the Cloud?	6	
Financial Reporting recapped	7	
The legislated auditing and accounting aspects of Estate Agents	9	
Carbon Tax in South Africa, what is the status quo?	12	
Data and Analytics, and how business is impacted by this	14	
Public Service Staff Cost is not sustainable, they cannot have their cake and it	16	

every issue

Tech Talk

17

Practice Management

18

Need To Know

19

ONE OF SAICA'S STRATEGIC FOCUS AREAS IS
PROTECTING AND ENHANCING THE INTEGRITY
AND ETHICAL VALUES OF THE CHARTERED
ACCOUNTANCY PROFESSION.



<https://www.facebook.com/OfficialSAICA>



https://twitter.com/saica_ca_sa



SAICA

THE SOUTH AFRICAN INSTITUTE
OF CHARTERED ACCOUNTANTS

ASSURANCE ENGAGEMENTS On Attorneys' Trust Accounts

Written by Hayley Barker Hoogwerf,
Project Director: Assurance

The Attorneys Act, No. 53 of 1979 (Act) requires attorneys to have their trust accounts audited, in terms of whether those accounts have been maintained in compliance with Section 78(1), 78(2)(a) and (b), 78(2A), 78(3) and 78(4) of the Act, and certain identified Rules of the Attorneys' Profession (Rules). This article provides an overview of the current assurance model applied by auditors in conducting such a compliance engagement.

CURRENT ASSURANCE MODEL

In terms of the current assurance model, the registered auditor (RA) is required to perform a reasonable assurance engagement in accordance with ISAE 3000 (Revised)¹ and by applying the Revised Guide for Registered Auditors: Engagements on Attorneys' Trust Accounts (IRBA Guide), as issued by the Independent Regulatory Board for Auditors (IRBA).

A reasonable assurance opinion expressed by a RA in terms of ISAE 3000 (Revised) is designed to enhance the degree of confidence of the intended users about the subject matter or subject matter information.

In this instance, the assurance opinion relates to whether the attorneys' trust accounts were maintained, in all material respects, in compliance with the Act and the Rules for the period under review. This reasonable assurance opinion is intended to provide a high, but not absolute, level of assurance regarding compliance with the identified requirements of the Act and the Rules. The Law Societies and the Attorneys Fidelity Fund (AFF), as primary users of the assurance report, would use the assurance opinion in relation to their information needs, for example, managing the risks that the AFF is exposed to with respect to the payment of claims pertaining to the misappropriation of trust funds.

BENEFITS AND INHERENT LIMITATIONS OF THE CURRENT ASSURANCE MODEL

The main benefit of any assurance engagement is the confidence that the users obtain in the subject matter or subject matter information; i.e. the degree to which the work performed by an independent assurance practitioner, who is subject to recognised ethics, quality control and engagement standards, enhances the credibility of the subject matter or information for the users.

However, any assurance engagement is also subject to certain inherent limitations, including but not limited to:

- The evidence obtained in an assurance engagement is persuasive rather than conclusive;
- The audited entity (in this instance, the attorney or attorney's firm) is required to implement internal controls to ensure the relevance and reliability of financial reporting, or to ensure that the entity and the entity's personnel comply with applicable laws and regulations (in this instance, the Act and the Rules).

The auditor's risk assessment and design of audit procedures in response to assessed risks are subject to the inherent limitations of these internal controls;

- The effect of selective testing, including sampling given that the auditor does not test all populations or all items in all populations, but rather selects certain items for testing; and
- The auditor exercises professional judgement in planning and performing an audit, which by its nature is susceptible to a range of subjectivity and is dependent on behavioural traits.

Because of the inherent limitations of an assurance engagement, there is an unavoidable risk that some misstatements or non-compliance, as applicable, may not be detected, even though the audit is properly planned and performed in accordance with the relevant auditing and assurance standards.

¹ ISAE 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000 (Revised)).



THE AUDITORS' RESPONSIBILITY IN TERMS OF DETECTING FRAUD

The primary purpose of an assurance engagement on an attorney's trust accounts is for the RA to evaluate whether the attorney's trust accounts were maintained in compliance with the Act and the Rules. Various users and stakeholders also have an expectation that RAs will detect fraud and theft. Although not the primary purpose of this compliance assurance engagement, the RA does respond to this expectation.

Since ISAE 3000 (Revised) does not contain specific requirements in relation to the RA's response to fraud and only makes mention of fraud in its application and other explanatory material, the RA may draw from the guidance contained in ISA 240 (Revised)² in determining how to appropriately identify, assess and respond to fraud risk factors that may be applicable to any given engagement on attorneys' trust accounts.

The attorney or the partners or directors of the attorney's firm are responsible for ensuring that the trust accounts are maintained in compliance with the Act and the Rules, and for such internal control as they determine is necessary to maintain the integrity of those trust accounts in accordance

with the relevant client mandates, including such controls as they determine are necessary to prevent and detect fraud and theft. The RA will, as part of the assurance engagement, identify and assess the risks of non-compliance due to fraud by, for example, inquiring about and being alert to certain fraud risk factors, inquiring whether the attorney is aware of any known fraud or suspected fraud, and obtaining an understanding regarding the accounting and internal control systems in place to prevent, or detect and correct fraud and error.

In a compliance assurance engagement, the inherent limitations as discussed in the section above, may be exacerbated because non-compliance often stems from intentional actions to deceive or conceal or mislead. The risk of not detecting non-compliance resulting from fraud is higher than for non-compliance resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

The IRBA Guide contains a specific section relating to special considerations applicable to fraud and theft³.

IDENTIFIED INSTANCES OF NON-COMPLIANCE

As indicated above, the primary purpose of an assurance engagement on an attorney's trust accounts is for the RA to evaluate whether the attorney's trust accounts were maintained in compliance with the Act and the Rules. To this end, any identified instances of non-compliance are considered to be qualitatively material and the RA is required to qualify the auditor's report by listing all these instances of non-compliance, regardless of whether or not they have been appropriately accounted for or resolved by management. Instances of non-compliance that have been reported and resolved should be indicated accordingly⁴. Many legal practitioners are not comfortable with this practice; however, this discomfort probably stems from a lack of understanding of the assurance engagement and related assessment process.

In many instances, legal practitioners view a qualified auditor's report as an immediate "fail" in complying with the qualifying criteria for obtaining a fidelity fund certificate. They are not aware that the AFF applies their discretion to the nature of the non-compliance in considering the appropriate response, including whether or not to issue the legal practitioner with a fidelity fund certificate. This is therefore not viewed as an automatic failure. It is important to note that the RA cannot make the assessment of the required response to instances of non-compliance on behalf of the AFF as this is beyond the scope of the compliance assurance engagement.

IN CONCLUSION

The assurance engagement on attorneys' trust accounts that is performed by a RA in accordance with the applicable pronouncements, including relevant quality control standards and the Codes of Conduct⁵, is designed to enhance the degree of confidence of the intended users about whether the trust accounts were maintained in compliance with the Act and the Rules. The users of the auditor's report include the legal practitioners themselves. These legal practitioners should not view this merely as a grudge purchase imposed by legislative requirements but embrace the engagement as one that provides valuable information that can be used in controlling their risks and enhancing their business.

² ISA 240 (Revised), The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements.

³ IRBA Guide, paragraphs 58 to 66.

⁴ IRBA Guide, paragraphs 55 to 57.

⁵ This includes both the SAICA Code of Conduct and the IRBA Code of Professional Conduct for Registered Auditors.



NATIONAL MINIMUM WAGE BILL

DOMESTIC WORKERS MINIMUM WAGE

Written by Viola Sigauke,
SAICA Project Manager: Legal and Governance

NATIONAL MINIMUM WAGE BILL

The Basic Conditions of Employment Act (BCEA) permits the Minister of Labour to set minimum terms and conditions of employment, including minimum wages. They are in place in areas of economic activity where labour has been deemed vulnerable. According to Addressing the Plight of Vulnerable Workers: The Role of Sectoral Determinations prepared for the Department of Labour, it states that since the establishment of the Employment Conditions Commission (ECC), eleven sectoral determinations governing vulnerable workers in different sectors of the economy have been established. These are:

- | | |
|---|------------------------|
| ◆ Forestry | ◆ Civil Engineering |
| ◆ Agriculture | ◆ Learnerships |
| ◆ Contract Cleaning | ◆ Private Security |
| ◆ Children in the Performance of Advertising, Artistic and Cultural Activities (under fifteen years of age) | ◆ Domestic Workers |
| ◆ Taxi Operators | ◆ Wholesale and Retail |
| | ◆ Hospitality |

If a sector or area is not considered vulnerable, there are no minimum wages, regardless of the fact that some employees in that sector or area may be paid very low wages.

The Cabinet approved the National Minimum Wage Bill on 1 November 2017.

In February 2018 representatives of government, business, the community sector and two of the three labour federations represented at the National Economic Development and Labour Council (Nedlac), signed the national minimum wage agreement. According to this, workers will receive a minimum of R20 per hour which translates into a monthly wage of about R3 500 for a 40-hour week, and about R3 900 for those who work 45 hours a week.

In addition to the National Minimum Wage Bill, Cabinet also approved the Basic Conditions of Employment Amendment Bill and a Labour Relations Amendment Bill. The three pieces of draft legislation was published in the Government Gazette on 10 November 2017. Cabinet said in a statement that the National Minimum Wage Bill is due to come into effect on 1 May 2018. There are a few exceptions to the national minimum wage:

- the minimum wage for farm workers will be 90% of R20 per hour (R18 per hour);
- the minimum wage for domestic workers will be 75% of R20 per hour (R15 per hour); and
- the minimum wage for workers on an Extended Public Works Programme (EPWP) will be 55% of R20 per hour (R11 per hour).

The wage for learnership agreements are set out in Schedule 2 of the National Minimum Wage Bill. Workers who have concluded learnership agreements will also be entitled to allowances, depending on their qualifications, ranging from R301.01 to R1 755.84 per week.

The national minimum wage is calculated as being the aforementioned amounts excluding any payment made to enable an employee to work including transport, equipment, food or accommodation allowance, any payment in kind, which includes board or accommodation, gratuities including bonuses, tips or gifts and any other prescribed category of payment.

DOMESTIC WORKER WAGES AMENDMENT WITH EFFECT FROM 1 JANUARY 2018

The employment of domestic workers which includes housekeepers, gardeners, nannies, domestic drivers, etc., is governed by this determination. The determination sets:

- ◆ minimum wages
- ◆ working hours
- ◆ number of leave days
- ◆ termination rules

With effect from **1 January 2018** domestic wages for the period 1 January 2018 to 30 November 2018 has increased as follows compared to 1 December 2016 to 30 November 2017:

Minimum wages for domestic workers who work more than 27 ordinary hours a week

	Hourly		Weekly		Monthly	
	2017	2018	2017	2018	2017	2018
Area A	R12.42	R13.05	R559.09	R587.40	R2 422.54	R2 545.22
Area B	R11.31	R11.89	R508.93	R534.91	R2 205.16	R2 317.75

Minimum wages for domestic workers who work 27 ordinary hours per week or less

	Hourly		Weekly		Monthly	
	2017	2018	2017	2018	2017	2018
Area A	R14.54	R15.28	R392.59	R412.60	R1 701.06	R1 787.80
Area B	R13.35	R14.03	R360.54	R378.83	R1 562.21	R1 641.48

Wages are prescribed for two areas, namely Area A and Area B. Municipal boundaries have been used to distinguish between the two areas. Please refer to the Wage Tables for clarification on the various areas.

The question arises on the impact of the National Minimum Wage Bill and the Domestic worker wages, according to National Minimum Wage Bill, section 4 (4) "The payment of a national minimum wage cannot be waived and the national minimum wage takes precedence over any contrary provision in any contract, collective agreement or law, except a law amending this Act."

We will therefore have to refer to future communication from the Department of Labour on whether the National Minimum Wage Bill will take precedence over the Sectoral Determination for Domestic workers.



AREA A

THE FOLLOWING MUNICIPALITIES

Bergrivier, Breederivier, Buffalo City, Cape Agulhas, Cederberg, City of Cape Town, City of Johannesburg, City of Tshwane, Drakenstein, Ekurhuleni, Emalahleni, Emfuleni, Ethekwini Unicity, Gamagara, George, Hibiscus Coast, Karoo Hoogland, Kgatelopele, Khara Hais, Knysna, Kungwini, Kouga, Langeberg, Lesedi, Makana, Mangaung, Matzikama, Metsimaholo, Middelburg, Midvaal, Mngeni, Mogale, Mosselbaai, Msunduzi, Mtubatuba, Nama Khoi, Nelson Mandela, Nokeng tsa Taemane, Oudtshoorn, Overstrand, Plettenbergbaai, Potchefstroom, Randfontein, Richtersveld, Saldanha Bay, Sol Plaatjie, Stellenbosch, Swartland, Swellendam, Theewaterskloof, Umdoni, uMhlathuze and Witzenberg



AREA B

THE REST OF SOUTH AFRICA

WHY THE CLOUD?

Written by Vangelis Kyriazis, Co-founder of Syft Analytics

Cloud accounting software has gained traction in recent years with many South African practices moving away from traditional desktop solutions. We'll explore the benefits and drawbacks of cloud accounting software (software on the internet) whilst comparing the current cloud accounting market leaders in South Africa.

BENEFITS OF THE CLOUD

Cloud accounting software has a number of benefits for both your practice and your clients:

- **Bank Feeds** – arguably cloud accounting's greatest strength. Clients can link their bank account directly into the software and automatically import transactions daily – no need for manual data entry or bank reconciliations.
The win for your practice - reduce errors and bookkeeping time significantly.
- **Instant, anywhere access** – no need to be on site at the client or host a server in your office. You and your team can access your clients' data from anywhere and in real time.
The win for your practice – No pervasive engine errors and the ability to reduce your practice's travel time.
- **Integrations** – as the accounting software is in the cloud (on the internet), one can connect it to other online software – marketing, point of sale, reporting, e-commerce etc. This automates many manual data-entry processes for you and your clients.
The win for your practice – Your client's accounting data is now consolidated with e-commerce and Point of Sale transactions which are synced in real time.
- **Ease of use** – graphical user interfaces enable your clients to easily process customer and supplier transactions. Clients can even do most of the bookkeeping work themselves. As the software is on the internet, there is no need for downloads, installations or any PC-related issues.
The win for your practice – happy clients processing transactions accurately and timeously as they enjoy using the software.
- **Data security** – your data is hosted by the cloud accounting provider and not on your or your client's servers – there is no risk of data loss or theft.
The win for your practice – Your client's accounting data is safe and secure.

DRAWBACKS OF CLOUD ACCOUNTING SOFTWARE

Cloud accounting is not all peaches and cream. As it is hosted on the internet, a fast, reliable internet connection is a must. We recommend a fail over from your fixed line connection to a mobile or 3G back-up. Your mobile phone can be used as a hotspot which reduces the need for additional expenditure.

Another drawback that we have uncovered is entity size. Large businesses with more than 5,000 inventory items or more than 5,000 transactions per month may experience speed issues on some solutions and a more enterprise grade solution is recommended.

A SWITCH TO CLOUD ACCOUNTING SOFTWARE FOR YOUR PRACTICE WILL IMPROVE DATA ACCURACY, UNLOCK STAFF CAPACITY AND ENABLE YOU TO FOCUS ON ADDING VALUE TO YOUR CLIENT'S BUSINESS.

FINANCIAL REPORTING

RECAPPED

Written by Bongeka Nodada,
SAICA Project Director: Corporate Reporting

Q&A on IFRS for SMEs

During December 2017, the International Accounting Standards Board's (IASB) SME Implementation Group published guidance on the accounting treatment of financial guarantee contracts in individual or separate financial statements. The guidance has been issued in the form of a Q&A. It clarifies that financial guarantee contracts should be accounted for either in terms of Section 12 – Other Financial Instruments Issues or in accordance with IAS 39 – Financial Instruments: Recognition and Measurement if elects to apply the recognition and measurement in IAS 39 to its financial statements.

The IFRS for SMEs Standard, Section 12, Issue 1 - Accounting for financial guarantee contracts in individual or separate financial statements of issuer can be downloaded from the [IASB website](#).

FAQ on the accounting treatment of attorneys' trust accounts

SAICA has published an FAQ which provides guidance on the accounting treatment of attorneys' trust accounts in the financial statements of attorneys. Download the FAQ from the [SAICA website](#).

eXtensible Business Reporting Language (XBRL)

From 1 July 2018, companies will be required to submit annual financial statements (AFS) to the Companies and Intellectual Property Commission (CIPC) via XBRL.

The changes to the submission process will affect close corporations (that are required to submit AFS), all public companies, private companies (that are required to submit AFS), non-profit companies (that are required to submit AFS) and state-owned companies.

The CIPC is currently running a pilot programme and several resources have been made available to assist companies participating in the pilot programme to successfully complete the filing. These resources include a [webinar](#) which is a demonstration of the filing process, an [instruction manual](#), and a [step-by-step guide](#) to register/login on the CIPC website for filing purposes. The purpose of the pilot programme is to test and revise the functionality and to identify and resolve technical issues prior to the implementation date, being 1 July 2018.

To ensure compliance by 1 July 2018, the CIPC advises that you follow these steps:

1

FIND OUT EXACTLY WHICH DATA ELEMENTS ARE REQUIRED TO BE TAGGED (REFER TO CIPC WEBSITE)

2

EVALUATE XBRL CAPABILITY OF CURRENT IN-HOUSE SYSTEMS (CONTACT VENDORS)

3

ENGAGE WITH SOFTWARE SERVICE PROVIDERS TO DISCUSS OPTIONS AND COSTS

4

DECIDE WHICH APPROACH TO FOLLOW (FULL INTEGRATION OR TAGGING ONLY)

5

BUDGET FOR CHOSEN APPROACH

6

DEVELOP OR OBTAIN TAGGING SOLUTION

7

TEST SUBMISSIONS DURING PILOT PHASE WITH CIPC

8

DETERMINE DATE FOR FIRST SUBMISSION OF LATEST AVAILABLE AFSS

9

SUBMIT FIRST LIVE SUBMISSION AFTER 1 JULY 2018

The steps outlined above can be obtained from page **15 of this document**.
Access the relevant documentation pertaining to the CIPC's XBRL programme on the **CIPC's website**.

The JSE's proactive monitoring of financial statements

On 20 February 2018, the JSE published its report entitled Reporting Back on Proactive Monitoring of Financial Statements in 2017. This report outlines the findings identified by the JSE during its reviews in 2017 and highlights its focus areas for its 2018 review which issuers should be aware of as they prepare their next set of financial statements. It is important to note that from 2017, audit committees have been required to submit a written confirmation that the report has been tabled at an audit committee meeting.

In its 2017 review, the JSE focused on the issue of decluttering of financial statements and the disclosure on the new IFRSs in line with paragraph 30 of IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors. The report notes that the statement cash flows was the single biggest contributor of material infringements. Other areas which issuers faced challenges with relate to the application of the revaluation model for property, plant and equipment and the calculation of the headline earnings per share. Moreover, the top five disclosure omissions related to the disclosure of the tax rate reconciliation (IAS 12 – Income Taxes), disclosure of impairment calculations in IAS 36 – Impairment of Assets, classification of dividends received and interest received (IAS 18 - Revenue), disclosures on unobservable inputs used in valuation models (IFRS 13 – Fair Value Measurement) and the three line statement of cash flows (IAS 34 – Interim Financial Reporting).

The report also outlines the stats from the 2017 review and benchmarking these against international counterparts.

The JSE has identified two focus areas for 2018:

- The quality of disclosures relating to the new Standards in line with paragraph 30 of IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors; and
- The disclosure of judgements and estimates which is an IAS 1 – Presentation of Financial Statements requirement.

The new IFRSs (IFRS 9, IFRS 15 and IFRS 16) will be addressed at the following SAICA events:

- IFRS Back to Basics taking place from May 2018.
- Financial Reporting Update for Executives taking place on 21 August 2018.
- IFRS Update taking place in October and November 2018.

Reserve your seats to attend the above events on the ***seminars and events page***.

Two cases were also referred to the Financial Reporting Investigations Panel (**FRIP**) during 2017. Case 1 related to the accounting treatment of advertising rebates and the Case 2 focused on the classification of equity-settled share-based payments on the statement of cash flows.

Access the JSE Report Back on Proactive Monitoring of Financial Statements in 2017 from ***this link***.

The role of agenda decisions published by the IFRS Interpretations Committee (Interpretations Committee)

Projects of the Interpretations Committee are generated by a question submitted to it by any constituency regarding an IFRS/s. All submissions made to the Interpretations Committee are considered at a public meeting of the **Interpretations Committee**.

The Interpretations Committee may decide not to recommend a question submitted to it for standard-setting. In other words it may decide not to add the project onto its agenda or that of the IASB because it is unnecessary as IFRS provides enough information for a company to determine its accounting or because there is no evidence that a widespread accounting problem exists or it is unhelpful for a majority of the companies.

Where this situation arises, the Interpretations Committee provides reasons for its decision (made at a public meeting) not to take a project onto its agenda and the decisions are published as tentative agenda decisions for a 60-day comment.

Following the 60-day comment period, the final agenda decision is published and these often include information to assist companies to apply the Standards. They do so by explaining how the applicable principles and requirements in the Standards apply to the question submitted.

Agenda decisions are therefore essential reference point for companies to use when preparing financial statements. In concluding Case 1 on the accounting treatment advertising rebates (as noted above), the FRIP also made reference to an agenda decision published in 2004.

Access the Interpretations Committee agenda decisions from the **IASB website**.

THE LEGISLATED AUDITING & ACCOUNTING ASPECTS OF ESTATE AGENTS

Written by Thomas Makupo CA(SA), RA
is the Audit Compliance Manager at the
Estate Agency Affairs Board

With the audits of estate agents classified as high-risk assurance work by the Independent Regulatory Board for Auditors (IRBA), what are the key elements of the legislative framework applicable to estate agents that auditors and accountants often misunderstand?

The three primary pieces of legislation that govern the key elements of the auditing and accounting aspects of the business of an estate agent are the Estate Agency Affairs Act Number 112 of 1976 (the EAAA), the Financial Intelligence Centre Act Number 38 of 2001 (the FICA) and the Auditing Profession Act Number 26 of 2005 (the APA).

The Estate Agency Affairs Act

The EAAA has a wide definition of an estate agent. Broadly defined, an estate agent is any natural or juristic person, who, for the acquisition of gain and on behalf of another person, buys, sells, lets and/or hires immovable property. Canvassing of sellers and buyers (or lessors and lessees) of immovable property is also included in the definition of an estate agent. Managing agents of sectional title schemes and home owners associations are also estate agents as defined.

Natural persons operating as estate agents are required to have been issued with a Fidelity Fund Certificate (FFC) by the Estate Agency Affairs Board (the EAAB) under any one of the four categories: principal, non-principal, intern or non-executive principal. The EAAB is the statutory regulatory body of the estate agency profession. The FFCs are valid from the date of issue to 31 December of the year of issue and are renewable on an annual basis.

Principal estate agents can operate their estate agency business in the form of a company, a close corporation, a partnership or as a sole proprietor. The estate agency business is also required to be issued with an FFC valid for a calendar year, renewable on an annual basis.

Auditors and accountants should be cognisant of the following auditing and accounting requirements in the EAAA that apply to all estate agency businesses, irrespective of the estate agency business form:

- a. Every estate agency business is required to open and keep open at least one trust account with a bank registered under the Banks Act, which should be designated as opened in terms of section 32(1) of the EAAA, and all trust monies received should be deposited without delay in this trust account;
- b. An estate agency business may also invest in a separate savings or other interest-bearing account opened with a bank registered under the Banks Act or a mutual bank registered under the Mutual Banks Act and designated in terms of section 32(2) of the EAAA any moneys deposited in the trust account which are not immediately required. Half of the interest earned on trust monies deposited in a trust account opened in section 32(2), which is not payable to the trust creditors in terms of express terms of mandates, should be paid to the Estate Agents Fidelity Fund and the other half should be retained by the estate agent.
- c. Trust moneys should be retained in the trust accounts opened in terms of section 32(1) and/or 32(2) until the estate agent is lawfully entitled or lawfully instructed to release such trust money.
- d. Every estate agency business is required to keep separate accounting records of trust moneys and balance these trust accounting records on a monthly basis. In addition, every estate agency business is also required to keep accounting records relating to the assets and liabilities and the financial transactions of the business.
- e. Every estate agency business is required to have the trust accounting records and the financial statements of the business audited annually and to have the prescribed auditor's report relating to the trust account submitted by the auditor to the

EAAB on the MyEAAB Auditors Portal available on the EAAB website within four months after the financial year-end of the business.

- f. As part of the prescribed auditor's report to be submitted to the EAAB, the auditor is required to confirm that:
 - i. The estate agency business complied with sections 32(1), 32(2) and 32(3) of the EAAA in relation to the way the trust accounts were designated and administered as well as the manner in which trust accounting records were maintained; and
 - ii. The estate agency business is registered with the EAAB and issued with a valid FFC.

Financial Intelligence Centre Act

Estate agency businesses are listed in Schedule I of the FICA as accountable institutions. The EAAB is listed in Schedule II of the FICA as a supervisory body with the responsibility to supervise compliance with the provisions of FICA by estate agency businesses.

The duties of estate agency businesses under the FICA that the auditors and accountants should be acquainted with include the following:

- a. All estate agency businesses should register with the Financial Intelligence Centre (FIC) as accountable institutions. It is important to note that the head office, the branches and the franchise holders are regarded as separate accountable institutions and consequently, are required to register separately with FIC. The FIC introduced a new registration and reporting web-based platform called goAML in 2016. The FIC has issued PCC05B which deals with registration with the FIC.
- b. All estate agency businesses have a duty to establish and verify the identity of clients. This is commonly referred to "Know your client" or "KYC" requirements. Customer due diligence should be applied in line with the estate agency's risk-based approach. Risk-based approach requires accountable institutions to understand their exposure to money laundering and terrorist financing risk in relation to their clients, products etc. The FIC issued Guidance Note 7 which provides guidance on the risk-based approach.
- c. All estate agency businesses have a duty to report the following to FIC:
 - i. The cash transactions over the prescribed limit (currently set at R24 999.99). Cash for purposes of Cash Threshold Reporting refers to domestic and foreign notes and coins as well as travellers cheques.
 - ii. Suspicious and unusual activities and transactions. There are no clear-cut, established rules as to when a transaction or receipt of money will give rise to suspicion and each estate agency business must evaluate its transactions, taking into account normal practices. The FIC has issued Guidance Note 4A which provides guidance on suspicious and unusual activities and transaction reports. The FIC has also issued user guides in relation to such reports.
 - iii. Terrorist Property Reports in terms of section 28A of the FIC Act. The FIC has issued Guidance Note 6 which provides guidance on terrorist property reporting to the FIC.
- d. All estate agency businesses should keep record of clients and transactions.
- e. All estate agency businesses must develop, document, maintain and implement a Risk Management and Compliance Programme.
- f. All estate agency businesses must train staff to enable them to comply with the FICA.
- g. All estate agency businesses must have a compliance function (if a legal person) or appoint a person (if not a legal person) responsible for ensuring compliance with the FIC Act and the Risk Management and Compliance Programme.
- h. As part of the prescribed audit report to be annually submitted to the EAAB, the auditor is required to confirm that:
 - i. The estate agency business is registered with the FIC as an accountable institution; and
 - ii. The estate agency business reported cash transactions above the prescribed limit to FIC.

Auditing Professions Act

The APA places a duty on the auditor to report reportable irregularities to the IRBA. In this regard, the auditors of estate agency businesses and trust accounting records should evaluate the various potential contraventions of relevant legislation including the EAAA and FICA, and if they are satisfied or have reason to believe that a reportable irregularity has taken place or is taking place, report such to the IRBA without delay. As part of the prescribed audit report to be annually submitted to the EAAB, the auditor is required to confirm whether there were any reportable irregularities reported to the IRBA.

Auditors and accountants of estate agency businesses should be aware of the above legislative requirements, in addition to the other secondary legislation that estate agency businesses should comply with.



Everything else
is Obsolete

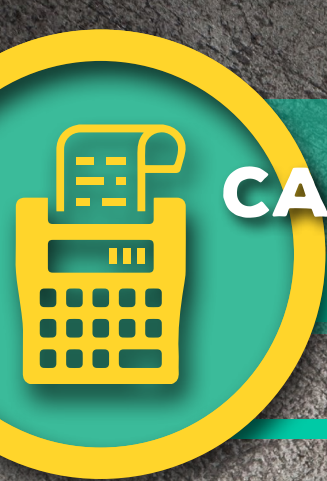
DRAFTWORX™
CLOUD

LAUNCHING MARCH 2018



DRAFTWORX™
Financial Statements | Working Papers

VISIT WWW.DRAFTWORX.COM



CARBON TAX IN SOUTH AFRICA, *what is the status quo?*

Written by Jeremy Grist and Silvana Claassen, Herbert & Liebsch Inc.

BACKGROUND AND CURRENT LEGISLATIVE DEVELOPMENTS

On 14 December 2017, the National Treasury released the second Draft Carbon Tax Bill for public comment before submission to Parliament. This is subsequent to the statement made in the Medium-Term Budget Policy Speech by the Minister of Finance on 25 October 2017 and giving effect to the announcement made in the 2017 Budget in February 2017.

Among the mix of measures that were put forward in South Africa's Nationally Determined Contribution (NDC) to combat the global fight against climate change, the carbon tax stands out in terms of its expected effectiveness. It is estimated that the introduction of a carbon tax can decrease carbon emissions by between 13 to 14.5 percent by 2025, and by 26 to 33 percent by 2035 compared to business as usual⁶. Upon South Africa ratifying the Paris Agreement in November 2016, the NDC became an internationally binding commitment.

In the frame of the commitments stated in South Africa's NDC and measures implemented in nearly all countries around the world, e.g. carbon taxes, carbon trading schemes, clean energy incentives, etc. to mitigate the negative effects of climate change, South Africa can no longer delay the introduction of an extensively debated, however considered cost-effective measure: the carbon tax.

The discussion on whether to introduce a carbon tax in South Africa started in 2010 with the publication of the Carbon Tax Discussion Paper. Followed by the 2013 Carbon Tax Policy Paper and the complementary 2014 Carbon Offsets Paper. These papers and extensive debates between government and affected stakeholders such as companies operating in the carbon intensive mining and heavy industry sectors, culminated in the publication of the first Draft Carbon Tax Bill in November 2015 for the public to comment on. The comments that were received by National Treasury (NT) through this public participation process have been carefully considered, responded to and incorporated in the revised Draft Carbon Tax Bill where appropriate. As a result, the second Draft Carbon Tax Bill was published on 14 December 2017 together with a number of annexures to this bill among which is a summary of the comments received and responses drafted.

The carbon tax bill is a money bill according to section 77 of South Africa's Constitution. This means that the draft bill is subject to an extensive stakeholder consultation process before the Minister of Finance tables the draft bill to the National Assembly. In other words, it is expected that the actual Act will not come into effect before 2019 with a first financial impact for companies only by June the same year when tax is payable for greenhouse gases emitted during the first six-monthly tax period, yearly commencing at 1 January and ending on 30 June (with the next six-monthly tax period commencing on 1 July and ending on 31 December). It is not likely that the implementation will be delayed much more if South Africa wants to keep its competitiveness from a global perspective.

THE PRINCIPLE OF THE CARBON TAX

The background to the introduction of a carbon tax is that it is firstly intended to encourage companies to change their behaviour towards carbon emissions, by taking steps now to gradually change their fuel demand, production techniques and processes, by investing in energy efficient, low carbon technologies to lower their carbon emissions. Secondly, the tax is designed around the "Polluter Pays Principle": by ensuring that the real cost of greenhouse gas emissions to the environment and society are explicitly incorporated into the prices of carbon intensive activities.

THE KEY ASPECTS TO THE CARBON TAX BILL

The implementation is characterised by phases and allowances to facilitate companies to progressively adapt to the implications of the regulations and to minimise any negative impact that a sudden penalty on formerly "free" processes

can have on the national economy (especially given South Africa's currently substantial dependency on fossil-fueled energy supply).

On top of these characteristics, the second Draft Carbon Tax Bill has been revised in respect to a number of topics that were found to be concerning according to the public as reflected by the comments submitted in response to the publication of the first Draft Carbon Tax Bill in 2015. The most important of these concerns are outlined below:

- **Revenue neutrality** – the concern has been raised that the effect of a carbon tax is not reaching its full potential if not complemented with incentives such as putting in place a rebate for the current electricity generation levy and the renewable energy premium.
- **Alignment of carbon tax and carbon budget regulations** – a concern, applicable to subsequent phases of the proposed carbon tax implementation, that ineffective alignment of the two legislative instruments could result in double penalty for companies that have to comply with both legal requirements – National Treasury has responded that “a study on the options for alignment and integration of the carbon tax and carbon budget policy instruments post 2020 has been completed by the Department of Environmental Affairs and the National Treasury. The mandatory carbon budgets regime will be introduced in a way that is fully aligned with the carbon tax and designed to ensure no double penalty”.

Other comments and issues raised by the public included:

- Competitiveness and the design of the trade exposure allowance;
- The tax rate and thresholds for phase one and two of the carbon tax;
- Carbon offset and performance allowances; and
- Technical, legal and administrative aspects.

Detailed information on how these issues have been dealt with by National Treasury is contained in Annexure 3 to the Draft Carbon Tax Bill, published on 14 December 2017: “Annexure 3 Response Document to 2015 Draft Carbon Tax Bill”.

IN CONCLUSION

The ultimate goal of the carbon tax is to aid the decarbonisation of South Africa's economy. For some industries the carbon tax as a measure to achieve this goal is not embraced with enthusiasm. However, there comes a time that further prolonging the implementation of sometimes unpopular measures, is inevitable to achieve the goal for which the measure has been designed.

The fact is that the process and required infrastructure⁷ for the implementation of a carbon tax in South Africa is developing progressively and simultaneously by the Department of Environmental Affairs, the Department of Energy and the National Treasury, who are combining their efforts to ensure that the implementation of the carbon tax is achieved in a coordinated manner.

Businesses should anticipate on these developments by implementing a business infrastructure that allows for efficient reporting and stocktaking of the carbon emissions associated with their processes to enable compliance with reporting regulations as well as tax liabilities but also to be able to maximise benefitting from allowance mechanisms and cost reductions through reducing one's carbon footprint. When executive management and the board of directors of a company have a clear understanding of the potential impact of the proposed carbon tax on their business, measures can be identified and implemented to manage and minimise risk and to capitalise on the opportunities that may arise.

For more information, please contact

Jeremy Grist

Tel: 082 468 1718 / 011 894 4400
Email: jeremy@hl.co.za

Silvana Claassen

Tel: 078 097 0852
Email: silvana@hl.co.za

⁶ Based on key findings from a modelling analysis documented in a World Bank “Partnership for Market Readiness” report (September 2016).

⁷ An important element of an effective infrastructure is the National Atmospheric Emission Inventory System which is a component of the National Greenhouse Gas Emission Reporting Regulations



DATA AND ANALYTICS, AND HOW BUSINESS IS IMPACTED BY THIS

Written by Byron Catin,
Managing Director Catin Systems

In an age where the success of most businesses, whether big or small or the measurement thereof is directly dependent on or influenced by information, it is important if not critical how we use the information to drive or achieve strategic objectives. Regardless of which area in business one operates in, there will essentially be two types of information that all decisions will be based on: Historic and Predictive. With Business Intelligence, existing data is used to quickly gain insight to current and previous key performance indicators. Although an excellent way to identify trends and patterns, one is limited by not being able to tell what will happen next. This is where Predictive or Advanced Analytics come in. With analytics, existing data is modelled to give businesses a foresight of futuristic performance, a very accurate (or close) prediction based on previous behavioural patterns, and the ability to solve, reduce or limit the impact of problems before they occur.

A while ago I read an article on one of the social media platforms where someone asked what the relevance of advanced or predictive analytics was within the recruitment sector as opposed to business intelligence. The scenario was that a recruiter needed to make a decision between two financial consultants where the one had a good credit rating and the other was blacklisted. A very well-known executive from a reputable IT recruitment firm responded by saying "past behaviour predicts future behaviour". Initially, I agreed, because in most cases, this is correct. But then I realised how important the parameters are, the information that is used to drive the outcomes of analytics, and how often the slightest mistake, no matter how right or accurate it may be, could be disastrous.

So being the extremely analytical person that I am with a very strong "monkey-wrench" business systems development background within the financial sector, I threw a spanner in the works by saying the comment

by the recruiter is flawed, and that the decision to hire the candidate with a good credit record might not necessarily be the best. The recruiter responded by saying "a bad credit score is the result of bad or poor financial management which is a common trend, and very bad for a financial consultant applying for a job". My response was: "How do you determine that? How do you know whether the consultant has a bad credit record as a result of financial misconduct, and not as a result of being retrenched or unemployed since their last job? Is your decision based on assumption, perception, or unknown facts that might not be included in any of the algorithms?" Most people who initially agreed with the executive, responded positively to my comments, which resulted in us getting two projects for analytics from the executive and one for business intelligence through word-of-mouth from the interaction.

Data is the backbone of any organisation regardless of size or industry and should be considered the most valuable asset. It is how the data is used that will determine whether a business fails, if it has a competitive advantage in their given market, and to measure success. Business Intelligence allows companies to manage and address KPIs and to have current decision-making information readily available based on past/known factors. Analytics advances business intelligence by giving businesses the ability to accurately look into the future to propel growth by not knowing the unknown, but dictating the outcomes based on past behaviour, which can further be accelerated by Artificial Intelligence. Most people today only associate artificial intelligence with Machine Learning (also known as Robotic Process Automation (RPA) or just Robotics) because that's all that people talk about today, but artificial intelligence has been around and implemented in business financial systems for more than 15 years.

**DATA, BUSINESS INTELLIGENCE, ANALYTICS, AND ARTIFICIAL INTELLIGENCE
IS NOT ONLY INTERLINKED AND PRICELESS, BUT ABSOLUTELY BEAUTIFUL.**



SAICA LAUNCHES NEW WEBPAGE: EMERGING TECHNOLOGY

The purpose of this webpage is to create a central repository for information relating to emerging technologies in all spheres of the accounting profession to enable members to keep abreast with the latest developments.

This webpage includes the following:

- Articles included in the SAICA S&L newsletters, Accountancy SA magazine and SMP newsletters;
- Links to recordings of seminars and events presented by SAICA;
- SAICA Comment letter on the IAASB request for input: Exploring the Growing use of technology in the audit with a focus on data analytics; and
- A link to information issued by the IAASB, including agenda packs, board minutes, issued documents and videos on data analytics.

To access this page click [here](#)

This page is a work in progress so WATCH THIS SPACE.

Is Recording, Monitoring & Tracking
of Practical Experience creating
frustrations for your SAICA training office?



LTS has the solution



- SAICA preferred online electronic assessment solution provider
- Record and monitor practical experience; from anywhere; anytime
- Access to real time reports, when you need it in the required format.

3 Easy steps to get going

1. Contact us: info@LTSsystems.co.za or 012 253 0017 / 0861 105 966
2. Send all required user and training office information.
3. View tutorials and start recording experience.



Dedicated to helping Training Offices and Students alike.

www.LTSsystems.co.za

PUBLIC SERVICE STAFF COST IS **NOT** SUSTAINABLE,

they cannot have their cake and eat it

Written by Madelein Grobler,
SAICA Project Manager: Tax and Legislation

The 2018 Annual Budget Review delivered on 21 February 2018 marks the end of a historical event, being that the 2017/18 fiscal year has been the leading year of a gross tax revenue shortfall amounting to R48.2 billion. Not to dwell too long in the past the question should be what must change to ensure history does not repeat itself in the future.

Given the announcements of the recent increases in existing taxes such as the increase of VAT by 1%, effective 1 April 2018, a higher estate duty tax rate of 25% for estates greater than R30 million, ad-valorem excise duty on certain 'luxury' items and a 52 cents increased fuel levy, there are very few options to increase net tax revenue further. Another option in addressing the budget deficit is to rather shift focus away from just increasing tax revenues and instead, scrutinise expenditure and means of curbing unlawful and wasteful expenditure within the Public sector.

The public service staff cost, in particular, has outperformed all other areas of expenditure and takes the biggest slice of the revenue cake, being 45% of net revenue in 2016/17 and an estimated 46% of net revenue in 2017/18. National Treasury reported in the 2017 Medium Term Budget Policy Statement (MTBPS) that the public service compensation has grown at an average rate of 10.3% over the last 8 year period. The only other expenditure which may take the cherry for fastest growing is debt-service costs and post-school education.

The public service staff cost has grown at an exponential rate compared to the average nominal Gross Domestic Product (GDP) growth of 7.3% of the past 8 years, per the MTBPS. In our view, it is not sustainable.

If the historic trend continues, it is estimated that within 24 years from now, meaning by 2042, the public service staff cost would equate to more than 100% of net revenue, resulting in the public services having the Country's cake and eating it too. This estimate takes into account the average nominal GDP growth rate and average tax to GDP rate of historic and forecasted years.

The analysis of the data indicates that if Government's wish is to significantly reduce a net revenue shortfall in future and to ensure that history does not repeat itself, it needs to give prompt attention to these staff costs with solid plans on how to address this. Such action would result in having net revenue funds available to utilise for other plans as announced in the 2018 Annual Budget Review, like National Health Insurance and free Higher Education.

TECH talk

Cloud in Practice Conference
Book your seat now!

Everything You Need to Know about Cryptocurrency and why it's The Future of Money
Cryptocurrency is changing the future of finance. What's not yet clear is how the technology behind bitcoin, and cryptocurrencies like it, will alter our national and global financial systems.

Why Is Blockchain Suddenly So Hot?
To fully appreciate what blockchain technology can bring to a corporate treasury department, start by setting aside all preconceptions about cryptocurrencies.

Cybersecurity: Eyes Wide Open
Cyber theft is evolving and assailants are continuously looking for new and creative ways to monetise data.

Skills that help accounting professionals succeed alongside AI
There's some understandable concern these days about the possibility that increased use of AI will lead to job losses amongst accounting and audit professionals.

Blockchain was made to solve one problem
Blockchain, or distributed ledger technology, set out to solve how we transfer a digital asset between two peers without an intermediary.

Why Technology Is Killing Time-Based Pay
Technological advancements require accountancy firms to review not only their internal processes relating to workflow and business management, but also their working environment, including employee reward and engagement practices.

Let Your Website do the Marketing for Your Firm
An overview on five practical things your website should be doing.

Why Accountants Must Embrace Machine Learning
AI as an accountant replacement myth is really just more of a hype that will be proven wrong.

PRACTICE MANAGEMENT



Drivers of change: Navigating the future

Plan today to manage tomorrow. What dialogue should organisations start today for a prosperous future?

SAICA Discover the Power to Succeed

Maximising the potential of your accounting firm

The accountant's guide to charging fees

Over the year, accountants have used many different means of deciding how much to charge. The starting point must be the engagement letter.

Small Practices: Leverage Traditional Services to Adapt to New Client Needs

The focus of SMPs today should be on how to move forward and evolve services as technology disrupts the current business model.

Building Your Firm's Accounting Advisory Services

There are two major costs when taking client accounting advisory services into account: technology and people.

Three Ways to Bridge the Finance Talent Gap

The finance function is changing. It is no longer just about reporting and balancing books, but about shaping a company's strategy and driving business outcomes.

How social media can work wonders for your small business

Accountancies have found social media a huge plus, and the different ways they've managed it.

Long Term Value Creation through Integrated Reporting

Questions and Answers for Professional Accountancy Organisations.

What Top Skills Do Professional Accountants Need for the Future?

How can professional accountants use their skills to anticipate the future?

Focusing on Performance: Enhancing Governance

Guidance for Professional Accountancy Organisations to Enhance their Governance.

need² KNOW



IFAC SMP SURVEY

Make your voice heard and participate in this global survey.



SAICA 2018 BUDGET PACK

Highlights of the 2018 Finance budget speech.



IFRS STANDARDS AND THEIR IMPACT ON FINANCIAL STABILITY AND LONG-TERM INVESTMENTS

Questions are sometimes asked about whether there is a connection between IFRS Standards and financial stability.



EXPOSURE DRAFT 64, LEASES

The International Public Sector Accounting Standards Board (IPSASB) has issued Exposure Draft 64, Leases.



NOTICE 012018: REGISTRATION NUMBERS FOR COMPANIES REGISTERED IN DECEMBER 2017

CIPC assigns the year of registration as the year within the application was received, while incorporation date is the actual date of registration.



NOTICE 4 2018: GUIDELINES ON APPOINTMENT OF ACCOUNTING OFFICER

Guidelines for the appointments of accounting officers in line with Section 15 of the Close Corporations Act.



IFRS 9 AND IFRS 15 ARE NOW EFFECTIVE

To read more about and access the Standard see the IFRS website link below:



IASB ISSUES IFRS TAXONOMY UPDATE FOR IFRS 17 INSURANCE CONTRACTS

The International Accounting Standards Board (Board) has issued an update to the IFRS Taxonomy 2017 for IFRS 17 Insurance Contracts.



MONITORING GROUP CONSULTATION PAPER

Monitoring Group Consultation Paper
SAICA's comment letter on Strengthening the governance and oversight of the international audit-related standard-settings boards in the public interest.



IFAC SMP COMMITTEE RESPONSE TO IESBA EXPOSURE DRAFT

The IFAC Small and Medium Practices Committee submitted comment letter to the IESBA in response to its Exposure Draft, Proposed Revisions to the Code Pertaining to the Offering and Acceptance of Inducements.



SARS TO ENGAGE INDUSTRY STAKEHOLDERS ON SUGARY BEVERAGES LEVY

SARS will embark on regional roadshows to engage industry stakeholders on the implementation of the Sugary Beverages Levy which is being implemented on 1 April 2018.



IESBA: APPROVED RESTRUCTURED CODE JANUARY 2018

The IESBA completed its Structure of the Code project and approved the text of the restructured Code. Parts 1, 2 and 3 of the International Code of Ethics for Professional Accountants will be effective as of 15 June, 2019.



FEEDBACK STATEMENT - EXPLORING THE GROWING USE OF TECHNOLOGY IN THE AUDIT, WITH A FOCUS ON DATA ANALYTICS

An overview of the key messages from the responses to the questions in the Request for Input.



EXPANDING SMP SERVICES: AGREED-UPON PROCEDURES ENGAGEMENTS

IFAC released a new publication Agreed-Up on Procedures (AUP) Engagements: A Growth and Value Opportunity which describes when AUP engagements are appropriate and identify key benefits.



IRBA DEALS FIRMLY WITH CRISIS OF CONFIDENCE IN ACCOUNTING AND AUDITING PROFESSIONS

The IRBA CEO Bernard Agulhas says as the regulator, they will seek to change the Auditing Profession Act to implement harsher sanctions and greater powers for the regulator to discipline errant auditors.