Small & Medium Practices

quarterly news........

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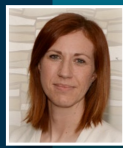

SMALL & MEDIUM PRACTICE NEWSLETTER • QUARTER 3 • 2018

inside...

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

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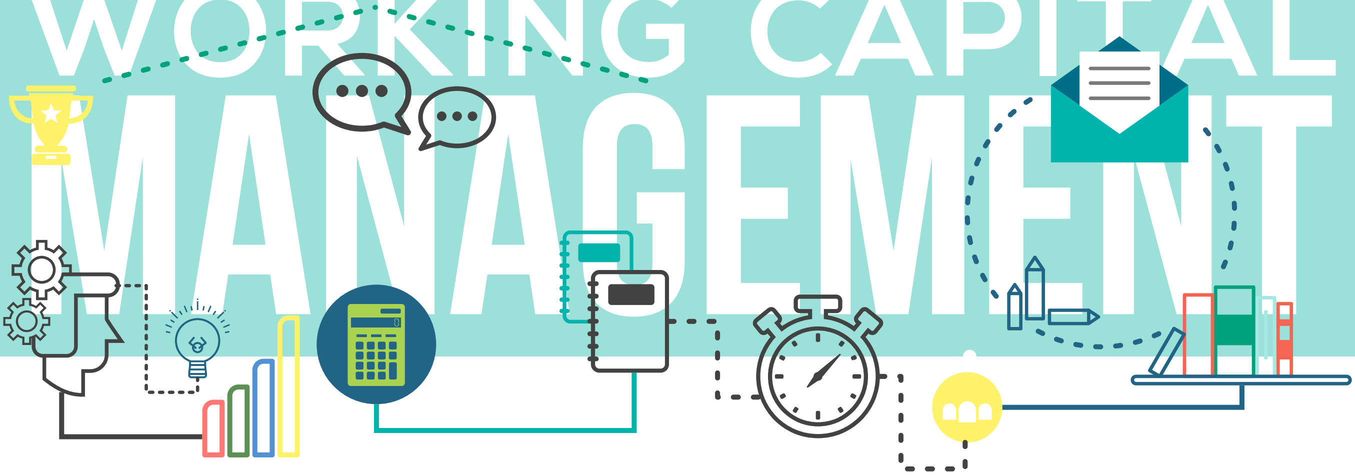
WORKING CAPITAL MANAGEMENT



Mike Francis
Founder of Practice Engine

In any business the good control over Working Capital is a very simple requirement. This is no different in the accounting profession. The two components of Working Capital that we will be reviewing pertain to inventory (Work in Progress or WIP) and Debtors (DRS).

There are other elements to this Working Capital such as cash and Credits (and possibly others), however for the purposes of the article we are limiting it to WIP and DRS.

There are many ways to run an accounting firm, such as value pricing or agreed fee billing. Some firms are requiring upfront payments with the Letter of Engagement (LOE) and using other methods to control the Working Capital. These are to be applauded, however for all firms, the grind of actually doing the work does not disappear, and has to be done irrespective of what other processes the firm is using.

WIP is created as team members charge their time to customer projects via time sheets, processed on a regular basis – daily or weekly. Expenses incurred on customer projects are also usually charged to those projects via expense gathering tools.

The time is charged at an hourly rate per team member and the WIP is the aggregation of these charges on a customer project. The rates used are usually a multiple of some cost, with a 'profit' element included. Very often it is as simple as three times theoretical costs per hour or some other similar multiple.

This article is not saying this method is correct, it is just that it remains the most widely used method in the profession. The reasons are simple: it is very easy to use, and there are numerous systems available to support it. There are also customers who will question any invoices raised on them as to how much time was spent, as though they can decide the charge rate matrix of the firm.

If time sheets are to be kept, then it is vital that the leader group of the firm (partners etc.) are at the forefront of capture and completion. If they are not, they send a very negative message to the team as to the importance and need for accuracy of this tool.

Time Sheet 'Fudges'

An issue with the keeping of time sheets is the inherent inaccuracies they create. In a number of forums I have asked the question as to the percentage accuracy of the hours recorded. The general consensus is under 70% with the obvious outliers on either side. When taken into account with the relevant 'recovery rates', which is used to determine the accuracy of the charge rate, then the accuracy falls into the realms of 50% to 60%! On a raw calculation basis this indicates that nearly 50% of the time recorded is not accurate. To then use this data to drive the firm has its inherent drawbacks.

Time sheets are fudged to avoid breaking budgets on customer jobs, and team members (all) will spread the time among jobs to achieve utilisation targets and avoid realisation overruns. The true time spent on a job is therefore in many instances not correctly recorded. This impacts using the actuals for any form of budgeting.

Non-linear Production

Another issue that impacts WIP severely is that of non-linear production. This is where customer jobs are started, and then stopped for numerous reasons, normally the lack of information on which to work. By putting down the job and then picking it up again later, sometimes by a different team member, ensures that charges are accrued against the job, and it remains unfinished and therefore unbillable under the classic regime.

This is also linked to bad job planning and resourcing. You need to have the right people doing the correct work on the job to ensure effectiveness. Poor job management is the major cause for WIP expansion and under recovery. The work has to be done, irrespective of the invoicing method, and therefore it needs to be run effectively.

In the classic system, once the work is completed the customer is invoiced. Certain firms will invoice in advance or on an agreed regular basis. Far too many firms are still invoicing monthly or even quarterly, and usually after the end of the month/quarter.

This has multiple effects. It allows for the growth of WIP. It sends an interesting message to customers who receive invoices after the 5th of the month (and worse) dated the end of the previous month. The ageing is based on the invoice date and not the invoice delivery date. It also ties up the quick financial closure of the month and puts a great deal of stress on those involved.

The DRS balance and the payment profile thereof will give a very accurate indication of the satisfaction of the customer base. Unhappy customers will typically drag out their payments, or not pay at all.

There are only two reasons that customers don't pay their invoices – they can't (they don't have the money) or they won't (they have the money, however they are unhappy). The former are a group for whom you need to make a strategic decision. Is it worth working for them for some other strategic reason? I personally think you need to stop all and any work until arrangements for payment are made. For those customers who won't pay, their reasons for non-payment need to be identified early on and removed.

By sending out a surprise invoice of a reasonable value is an invitation to not get paid. No one likes surprise charges, including customers of professional firms. The way to prevent this is using Value or Agreed pricing, and pricing and agreeing the scope of the work to be performed upfront.

Pricing is a skill and is not formulaic. There is no formula for Value pricing, it will come as a result of usage and post-job analysis. Under the hourly billing model, there is still the need to price, which is setting the invoice at a rate that the customer will be happy, and the firm will make reasonable recoveries.

The monitoring of the budget (agreed fee) and the accumulation of costs (if you keep timesheets) can assist in achieving on-time and on-budget delivery of service.

Most systems nowadays allow for the invoices and statements to be delivered by email, thus saving large amounts of money in postage and stationery costs. What must not be allowed, is the ability for partners to suppress the sending of these documents to their customers, reasoning that they are good or old customers and therefore need to be treated differently.

The style of what is sent is important only in that you recover the cash. Keep the content of the invoice sufficient for the customer to pay without query.

With the number of systems available to the professional firm, there is no reason to have a Working Capital problem. The resolution of the problem is not system dependent however, but rather through process and determined and focused management.

UNPACKING THE REVISED AND *Restructured Code*

Sanele Sikhakhane CA(SA)
Technical Assistant: Standards IRBA

You may have heard that the Independent Regulatory Board for Auditors (IRBA) issued the Revised and Restructured Code of Professional Conduct (the proposed IRBA Code) for public comment. But, you may ask, what does the revision and restructuring entail?

With effect from 1 January 2011, the IRBA adopted Parts A and B and the Definitions of the International Ethics Standards Board (IESBA) Code of Ethics for Professional Accountants (the IESBA Code) published by the International Federation of Accountants (IFAC). The IESBA had been working on the restructured IESBA Code and its related projects for the past three years, and this was finalised and published in April 2018. The IRBA had been following this process closely, and had commented on all proposed amendments to the IESBA Code.

The IRBA has now incorporated recently approved amendments to the IESBA Code in the proposed IRBA Code. These amendments will be recommended to the IRBA Board for adoption. Notable changes to the proposed IRBA Code are unpacked below.

Restructure of the proposed IRBA Code

The most notable change to the proposed IRBA Code relates to how it is structured or designed. It has been completely re-written in order to make it more user-friendly, more accessible and digestible. The proposed IRBA Code has also been made easy to understand, including using simpler and shorter sentences, simplifying complex grammar and avoiding legalistic and archaic terms.

The proposed IRBA Code increases the prominence of the requirements to comply with the fundamental principles, be independent, where applicable, and apply the conceptual framework. It also emphasises that compliance with the fundamental principles and, where applicable, being independent are the overarching ethical outcomes. The proposed IRBA Code also distinguishes requirements (paragraphs identified with an 'R') and numbering in bold from application material (paragraphs identified with an 'A').

South African Amendments

To make the IESBA Code's requirements more stringent and apply specifically to South Africa at a jurisdictional level, the proposed IRBA Code contains additional provisions to meet IRBA requirements for registered auditors. South African amendments also include paragraphs that have been elevated from application material in the IESBA Code to requirements in the proposed IRBA Code. It must be noted that the South African specific paragraphs as included in the extant IRBA Code have also been redrafted and included in the proposed IRBA Code.

Safeguards

The approach and details regarding safeguards (as a response to the threats) have been revised. This has been done by clarifying those safeguards that were perceived as unclear and eliminating those that were perceived as inappropriate or ineffective. The proposed IRBA Code also depicts better correlation between each safeguard and the threat it is intended to address, and highlights that not every threat can be addressed by a safeguard.

Professional Scepticism and Professional Judgement

To address the call for more focus on professional scepticism and professional judgement, the proposed IRBA Code describes how compliance with the fundamental principles supports the exercise of professional scepticism in the context of audit and other assurance engagements. There is also an emphasis on the importance of registered auditors obtaining a sufficient understanding of the facts and circumstances known to them when exercising professional judgement.

Offering and Accepting of Inducements

There have also been revisions to provisions relating to the offering and accepting of inducements. These provide enhanced guidance on the offering and accepting of inducements by registered auditors, their immediate or close family members.

Among other matters, the revisions also require registered auditors to address any threats to compliance with the fundamental principles in accordance with the conceptual framework, where there is no improper intent.

Long Association of Personnel with an Audit or Assurance Client

The proposed IRBA Code also contains amendments relating to Long Association of Personnel with an Audit or Assurance Client. These amendments deal with, among others, the general provisions that apply to all audits and assurance engagements with respect to the threats created by long association; increasing the mandatory 'cooling-off' period for the engagement partner and Engagement Quality Control Review (EQCR) on the audit of an entity that is a public interest entity (PIE); and prohibiting consultation with respect to the audit client and audit engagement with a former key audit partner (KAP) during the cooling-off period. It must be noted that these amendments are already effective for audits of financial statements for periods beginning on or after 15 December 2018, with early adoption permitted.

Non-Compliance with Laws and Regulations

Requirements dealing with Responding to Non-Compliance with Laws and Regulations (NOCLAR) have also been included in the proposed IRBA Code. These amendments set out a framework to guide registered auditors in what actions to take, in the public interest, when they become aware of a potential illegal act (NOCLAR) that could have been committed by a client or an employer. It must be noted that NOCLAR amendments are already effective as of 15 July 2017.

Among other matters, the new requirements provide a clear path for registered auditors to disclose potential non-compliance situations to appropriate public authorities, in certain situations, without being constrained by the ethical duty of confidentiality. They also place a renewed responsibility on senior-level accountants to promote a culture of compliance with laws and regulations as well as prevent non-compliance within their organisations. The requirements include a renewed emphasis on the tone at the top.

Often registered auditors ask whether they are required to comply with both Section 45 of the Auditing Profession Act, 2005 (Act 26 of 2005), regarding reportable irregularities and the NOCLAR provisions in the proposed IRBA Code, or whether one takes preference over the other. Registered auditors must comply with both requirements. In October 2017, the IRBA developed and issued Frequently Asked Questions (FAQs)[1] as a response to questions such as these on NOCLAR provisions.

Proposed Effective Date

So, when will the proposed IRBA Code become effective? It is proposed that the effective dates of the revisions to the proposed IRBA Code be aligned with the respective dates of the revisions to the IESBA Code as follows:

- Parts 1 and 3 will be effective as of 15 June 2019;
- Part 4A relating to independence for audit and review engagements will be effective for audits and reviews of financial statements for periods beginning on or after 15 June 2019; and
- Part 4B relating to independence for assurance engagements with respect to subject matter covering periods of time will be effective for periods beginning on or after 15 June 2019; otherwise, it will be effective as of 15 June 2019.

What are the Implications of these Changes

The proposed IRBA Code will have many significant changes that will need to be considered by all registered auditors and audit firms. This will result in significant changes to practice, policy and process.

Registered auditors may want to consider planning for appropriate training for personnel across all levels; discussing these changes at the audit partners' meetings; the need to reassess Continuous Professional Development; possible inconsistency between local requirements and international requirements; the need to re-evaluate the use of safeguards; hosting briefing sessions on the application of the proposed IRBA Code; and developing a better understanding of the revised conceptual framework.

These changes provide a unique opportunity for those charged with governance, including audit committees, to probe audit firms about how firm policies and procedures, for example, deal with inducements, and how firms are going to relook at safeguards that are currently in place, among other matters.

The proposed IRBA Code includes enhanced application material and revised requirements. These are aimed at enhancing auditor independence and safeguards that address threats to the fundamental principles; dealing with long association of personnel (including partner rotation) with an audit client; and promoting the practitioner's exercising of professional scepticism and professional judgement. As the proposed IRBA Code is one fundamental tool that may be used to restore confidence in the audit profession in South Africa, an in-depth understanding of it is imperative.

[1]https://www.irba.co.za/upload/IRBA%20FAQ%20on%20NOCLAR.PDF

MAFR

Just another audit abbreviation or something more within the small and medium practitioner space?

Lynette Roeloffze
Senior Manager,
SNG Grant Thornton

As part of the Independent Regulatory Board for Auditors (IRBA)'s actions to strengthen the independence of all auditors from their clients, Mandatory Audit Firm Rotation (MAFR) became a reality during 2017 with the IRBA issuing a Rule during June 2017 prescribing that auditors of public interest entities (PIEs) must comply with MAFR effective for financial period beginning in or after 1 April 2023.

The MAFR Rule requires:

1. An audit firm, including a network firm**, shall not serve as the appointed auditor of a public interest entity (PIE) for more than 10 consecutive financial years.

2. Thereafter, the audit firm will only be eligible for reappointment as the auditor after the expiry of at least five financial years.

3. When the auditor determines that an audit client becomes a public interest entity, the length of time the audit firm has served the audit client as the auditor before the client became a public interest entity shall be included in determining the timing of audit firm rotation.

4. Transitional provision: If, at the effective date, the public interest entity has appointed joint auditors and both have had audit tenure of 10 years or more, then only one audit firm is required to rotate at the effective date and the remaining audit firm will be granted an additional two years before rotation is required. This provision will only be applicable at the effective date.

So why are we including an article on MAFR in the Small and Medium Practices' (SMPs) quarterly newsletter? Why should MAFR mean more to me than a new abbreviation, a SMP?

These are the questions that I would like to explore further with you.

The IRBA's frequently asked questions (FAQs) on MAFR (June 2017) state that there are 4 283 Registered Auditors in South Africa of which only 378 (8%) are JSE-accredited auditors. Included in the statistics provided in this FAQ are details showing that the audits of JSE-listed companies were done not only by the big four audit firms [PwC, Deloitte, KPMG and EY] but also by medium-sized audit firms (Grant Thornton, BDO, Mazars) as well as by other SMPs either through joint audits, network firms or as an individual firm.

This information excites me as a SMP because it means we as SMPs should think more specifically about MAFR, the considerations we need to take into account and the questions we need to ask ourselves when we make decisions around whether the MAFR space is also a space where we as SMPs want to be involved in.

**As per the IRBA's code of professional conduct a network firm is defined as a larger structure:

(a) That is aimed at co-operation; and

(b) That is clearly aimed at profit or cost sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.

A Network firm is a firm or entity that belongs to a network.

We as SMPs certainly have a lot to offer

After many discussions with fellow SMPs, I can recommend the following focus areas when you make your decision on whether to position yourself and your practice within the MAFR space:

1. The possibility of being able to align my practice to that of other SMPs to form a network firm and collaborating the critical mass, appropriate skills and experience; auditor's experts as well as the individual attention from the engagement partner; flexibility with regards to resourcing; and the personal touch of the small and medium practice practitioner.

2. The SMP's ability to increase the practice's staff complement (potentially consultants or on a contract basis during the peak times) and also whether the practice is able to retain qualified staff and staff with the level of experience and skills relevant to PIEs.

3. The type of services that the SMP can render within the MAFR space – decisions will have to be made whether your practice is going to focus on the statutory audit OR on the other services such as: tax; accounting assistance; internal audit; secretarial and other advisory services.

4. The capacity and functionality of the SMP's current quality control and risk management processes and policies and whether it is adequate enough to support the SMP when auditing within the MAFR space. If it is not adequate, for this purpose, will the benefits from becoming part of the MAFR space outweigh the cost of implementing more robust quality control and risk management processes and policies enabling the SMP to audit in this space?

5. Charging of competitive fees/rates due to the SMP's infrastructure, fixed costs and hourly rates not being as expensive and as high as the large audit firm's infrastructure, fixed costs and hourly rates.

6. Increased brand exposure for the SMP within the PIE and JSE-listed commercial space which could lead to additional work albeit statutory audits or other services.

7. The value to be added by the SMP/network firm through focused attention; a fresh perspective, personal touch and collaboration between SMP colleagues.

Conclusion:

It would definitely not be easy for SMPs to get into the MAFR space, however the benefits at the end of the day, after having done proper planning and making informed decisions, may be worth the effort.

We as SMPs certainly have a lot to offer.

UNDERSTANDING ROAD ACCIDENT FUND CLAIMS

ROAD ACCIDENT FUND CLAIMS EXPLAINED

Franci Leppan,
Leppan Attorneys

The Road Accident Fund (RAF) provides compulsory social insurance cover to all users of South African roads in respect of liability incurred or damage caused as a result of an accident involving motor vehicles within the country's borders.

Claims against the RAF are based on bodily injury or death resulting from the negligent driving of a motor vehicle. Liability incurred in relation to damage of property is specifically excluded from this social insurance cover.

CLAIMS PROCESS

Pursuant to a change in legislation in recent years, only claims with a certain guaranteed probability of success are handled by attorneys. Furthermore, in terms of the RAF Amendment Act, which came into operation on 1 August 2008, a serious injury assessment report, to be completed by a medical practitioner (RAF 4 FORM), is necessary to prove claims over a certain amount.

The claim form, which initiates contact with the RAF and which sets out all required details is known as the RAF 1 form.

LIABILITY AND QUANTUM

Clients in matters of this nature are often referred to as claimants. Any claim against the RAF will, in the normal course, be divided into two distinct portions, being liability and quantum.

Liability refers to proof of negligence which resulted in the accident causing bodily injury or death. Only once liability is proven, can a matter proceed to have the injuries and expenditure quantified.

Quantum therefore refers to the mathematical component of the claim and relies heavily on the input of expert witnesses, for example medical doctors, as well as various ancillary therapists. Actuarial calculations based on the affected body part and subjective factors pertaining to the claimant are used as a guideline to quantify such claims.

CLAIMS PROCESS

Matters are not always settled through negotiations and often require litigation to come to finalisation. Two possible scenarios might present in these circumstances:

1. A settlement offer made by the RAF, which will be filed in the form of a court notice, may be accepted by the client during litigation. This settlement may be recorded in a court order, subsequent to such acceptance; or
2. A judgement is made and such judgement notice reflects the amount awarded to the successful litigant and pursuant to a court hearing of the matter.

Upon finalisation of a claim, the RAF is obliged to pay over to the attorney or claimant, the compensation as agreed or awarded. When this is paid to the attorney, he/she is entitled to pay all relevant disbursements, debit their fees and furnish the client with the balance after accounting. In instances where matters end up in court, the RAF either makes a legal cost contribution or agrees to pay the party and party costs of the claimant's legal team.

Quantification of party and party costs is achieved by a process called taxation. At the end of the taxation process, a stamped allocator, which is an official allocation of such amount will be available on file.

COMPLIANCE BY ATTORNEYS AND RISK TO THE RAF

Attorneys have in recent times received some bad press when it comes to handling claims against the RAF.

In many instances, the defrauding of the RAF resulted in not only exploitation of this public fund, but also compromised public trust in the conduct of attorneys who perform this type of work. As a result, the RAF has opened its doors to the public to lodge claims directly. Numerous local branches of the RAF are operating to serve the public and this is no longer a field of law which is exclusively in the domain of attorneys' work. The RAF also offers a service whereby members of the public can track and monitor their claims and the status thereof to promote transparency of the process.

AUDIT OF A RAF CLAIM

When auditing a RAF claim file, it is imperative to ensure that the claimant is clearly identified on the claim forms (FORM 1 and 4), accompanied by his/hers identity document as submitted to the RAF. Claims on behalf of children under the age of 18 years of age (minors) are commonplace and sufficient identification of not only the claimant, but also the parent or guardian is required by the RAF. Birth certificates, death certificates, identity documents and/or affidavits setting out the relationship of the representative to the claimant should be cross referenced as a matter of course.

Any correspondence from the RAF is clearly discernible and reflects not only the logo, but also the name of the matter, claim reference and details of the claimant. An offer in respect of settlement will also be received on such official correspondence and can be reconciled with any payment reflected in the trust account.

When accounting to clients, at the conclusion of a matter of this nature, it is imperative that the client should be credited with its cost contribution and or allocated taxed costs.

Many attorneys take on RAF cases on a contingency fee basis and therefore the auditor must also ensure that the requirements of the Contingency Fee Act have been adhered to. An explanation of legal fees, including the taxation process as well as the requirements of the Contingency Fee Act will be covered in future articles.

DEREGISTRATION OF TAX PRACTITIONERS FOR TAX NON-COMPLIANCE

WHAT ARE THE PRACTICAL IMPLICATIONS?

Pieter Faber
SAICA Senior Executive: Tax

Tax non-compliance is an ongoing concern for the fiscus and SAICA fully supports the principle that charity begins at home, i.e. tax practitioners should lead by example in regard to tax compliance.

As part of the tax practitioner regulatory regime, Recognised Controlling Bodies (RCB) agreed to support the South African Revenue Services (SARS) by assisting with tax compliance by incorporating tax compliance as an ethical conduct matter, though this requirement was not applicable to statutory RCBs such as the Independent Regulatory Board for Auditors (IRBA) and the Law Society.

However, it soon became clear that not only was this an unequal requirement, it also became burdensome as RCBs have to, through their members, request manual tax compliance information just to report back to SARS the information obtained from them.

To address some of these concerns, SARS as the primary regulator of the tax practitioner regime proposed to take over this function and formalise it in law to also apply to all tax practitioners. This proposal was then actioned through inserting the proposed new section 240(3)(d) of the Tax Administration Act, 2011 (the TAA) in the Taxation Laws Amendment Bill 2018.

27. Section 240 of the Tax Administration Act, 2011, is hereby amended by —

- **A** the deletion in subsection (3) of the word "or" at the end of paragraph (b);
- **B** the deletion in subsection (3) of the full stop and the addition of the phrase "; or" at the end of paragraph (c);
- **C** the addition in subsection (3) of the following paragraph:
  "(d) during the preceding period of six months has repetitively or for a continuous period of at least three months not been tax compliant to the extent referred to in sections 256(3)(a) and (b) and has failed to remedy such non-compliance within the period specified in a notice by SARS.".

This amendment will become effective on the date of promulgation, which SAICA estimates to be about December 2018.

SAICA has recently engaged with SARS on the proposal subsequent to our submissions to National Treasury and the Standing Committee on Finance as to concerns on the operational effect of this provision and ensuring that there are sufficient checks and balances in place to protect the tax practitioner, where relevant. In clarifying how this provision is envisaged to operate, it was explained in principle as follows by SARS:

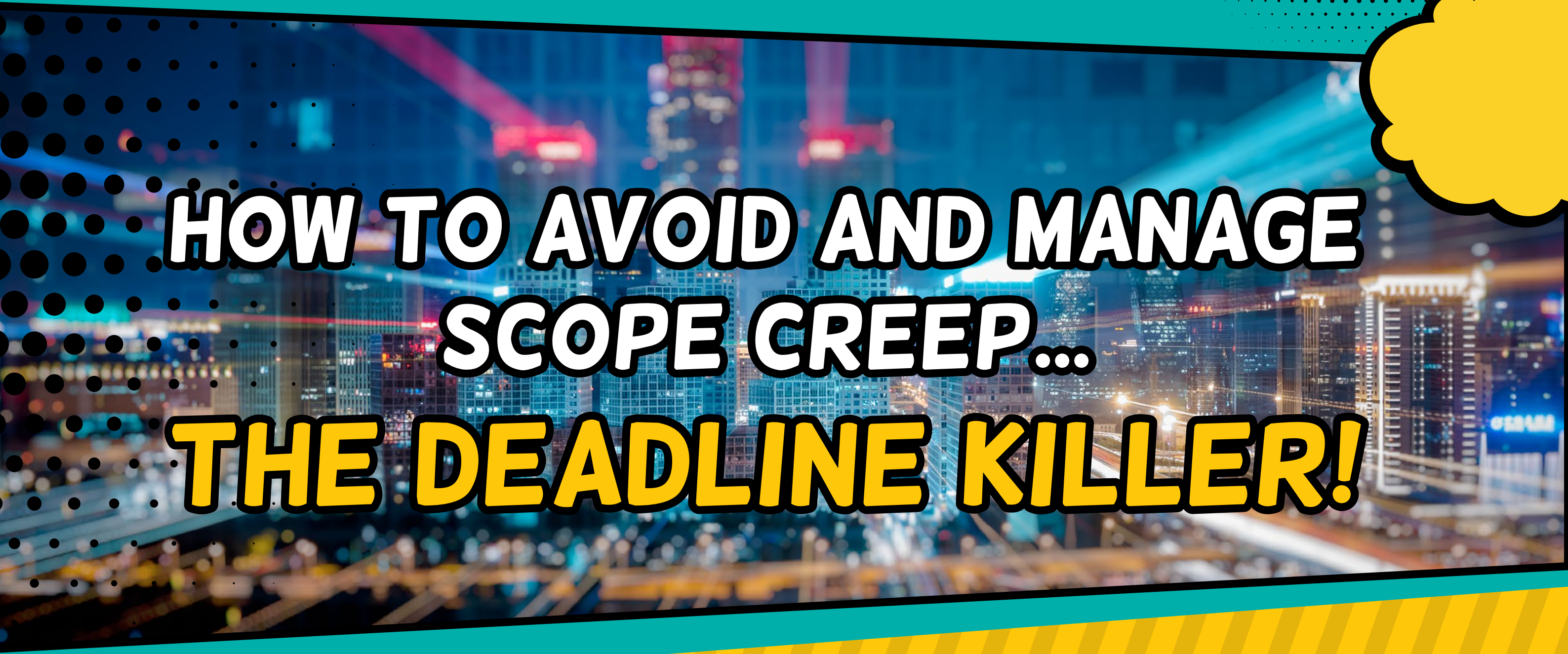
If a tax practitioner is tax non-compliant for 3 months consecutively (e.g. tax return outstanding for 3 months) in a 6 months' period or repetitively (i.e. assuming more than once), you will receive a compliance notice from SARS to rectify. If the tax practitioner does not rectify in time, the tax practitioner will be deregistered or refused registration. The person will then only be able to reregister after correcting the compliance and will only qualify to apply for reregistration after a period of 6 months has elapsed since the date of non-compliance was rectified and no other incidences of non-compliance occurred in that period. Essentially, SARS state that the "punitive sanction" is not only the deregistration but also preventing the person being registered for an additional 6 months, which in their view will better prevent repetitive non-compliance.

This is quite a serious extension to just being tax non-compliant and SARS compelling compliance. It should also be noted that normal financial sanctions would still apply over and above such non-compliance. SAICA has expressed its concerns as to the operational and legal impact of essentially closing down a tax practice for 6 months or effectively permanently, for a mere 3 months' non-compliance or "repetitive cases" within 6 months (e.g. late PIT return and late VAT return). In this regard, SAICA is still concerned that the sanction is disproportionate and does not fit the transgression and harm to the fiscus.

Furthermore, the actual impact of this is not just with tax practitioners, but their clients as well, especially as it relates to tax compliance services. Should a tax practitioner be deregistered, all his or her clients on SARS Efiling would have to be transferred to another tax practitioner to complete the compliance work before due dates as no extensions will automatically apply to them in this scenario and they would have to apply to SARS individually under the exceptional circumstance exclusion (section 218), after the fact. It is also unclear at this stage if these taxpayers will even receive a notification from SARS on the happening of the deregistration event.

SAICA will continue to engage all the relevant stakeholders on our concerns on the practicalities of this proposal, however tax practitioner members are forewarned to ensure that all their personal tax affairs are up to date by December 2018 and to ensure that they have sufficient internal controls in their practices to ensure that their own tax compliance is continually monitored and kept in compliance with the law.

HOW TO AVOID AND MANAGE SCOPE CREEP... THE DEADLINE KILLER!



Article provided by Practice Ignition

You've created what you believe is a solid job management system. You've got all your documentation sorted and a letter of engagement worthy of a Pulitzer Prize. Your client onboarding process feels like it is working.

So why are you scrambling to finish work on time? Why aren't you making as much profit on jobs as you should be?

Congratulations – you're the latest victim of scope creep, the silent villain of service businesses everywhere. Scope creep robs you of profit margins, stresses out your team, creates dissatisfied clients, and causes missed deadlines and rushed work that could wreck havoc with your reputation.

So what exactly is this scope creep, and how can you manage and avoid it in your business?

WHAT IS SCOPE CREEP?

In project management terms, scope creep is when the project ends up diverging from its stated outline. Usually, scope creep occurs because the client adds extra work that isn't in the original plan, the client changes the plan in the middle of the project, or your team discovers the project requires a deeper level of work than originally thought.

For example, you might be hired to build a new website template for a client who's using an existing platform. It's simple enough and you've done it hundreds of times before. However, when loading the website template, you discover the client's platform isn't installed properly, and faulty code is breaking your template. It takes two hours of additional work to get the site running with your template. That's scope creep.

Or, alternatively, you're hired by the client to put some paperwork together for the incorporation of their business. However, halfway through the project the client throws another folder at you – paperwork for another aspect of the business they assumed was included in the price but you know in fact is not. That's also scope creep.

And another example – you're hired to create graphic design and collateral for a marketing campaign including website banner ads, a radio spot, and a magazine ad. Throughout the process, the client keeps changing their mind about details – they decide they want a coupon code, then they want a storewide sale instead. The radio ad becomes an online video, and the magazine ad sizing changes. You agree to take on all these changes, but they mean the project isn't ready by the original due date. The client is irate. "Where's my designs?" – scope creep strikes again.

If you're in a professional service firm, you'll come across scope creep from time to time. It's not necessarily a bad thing. Changes happen, and delivering a project that meets your client's needs is exactly what you're here to do. But when it's happening frequently and disrupting your team, you need to consider what you can do to curtail it.

CONSEQUENCES OF SCOPE CREEP

Dealing with changing needs of clients is part of doing business. But if you're struggling to manage this flexibility and scope creep is impacting too many jobs, you might discover that:

- Your staff are getting stressed out and working too much unpaid overtime to try to meet deadlines or incorporate additional requests. This has a hugely negative impact on your team culture and may be causing feelings of resentment or a desire to look for another job.
- The quality of your work is suffering because you're trying to push too much out too quickly, and can't take the time for quality assurance you normally would. This can impact your reputation in the industry, as well as your personal pride in your work.
- Your profitability is being eaten away by projects running over budget and over time. If you don't, you may not even be aware of the fiscal impact until your accountant delivers devastating news.

HOW DO CLIENTS CAUSE SCOPE CREEP?

Our lovely, good-natured, well-meaning clients are to blame for the majority of scope creep issues. They just can't help themselves.

CLIENTS MAY:

- Misunderstand the original briefing process and forget to include important information or requests.
- Be dealing with indecision in their own company, leading to lots of last-minute changes.
- Have unexpected issues on their end that impact the project.
- Forget to include key elements when creating the brief.
- Be disorganised and unable to provide you the information when you need it.
- Fail to understand the importance of their role in the process.

You can't control your client's actions or business, but you can put processes in place to minimise problems that can lead to scope creep.

HOW DO YOU CAUSE SCOPE CREEP?

Clients aren't the only culprits responsible for scope creep. You could unwittingly be contributing to scope creep issues by failing to be clear about the brief, or miscommunication issues between members of your team.

You may also be the victim of "Gold-plating" – a term borrowed from software development. Gold-plating means people on your team doing more work to over-deliver on the scope. This is scope creep that comes from your team, not the client. Wanting to over-deliver on the awesome is a good thing, but when you've got people constantly spending more time and budget on going above the scope, it ends up costing you.

HELP! WE'VE GOT A BAD CASE OF SCOPE CREEP. WHAT DO WE DO?

When it comes to scope-creep, **prevention is definitely better than the cure.** If you've identified a current project that's besieged by scope creep, there are a few things you can do to try to turn things around.

Identify the issue. If you realise scope creep is going to cause a job to go over budget or miss deadlines, the first thing you need to do is identify where things went wrong. This is vital for taking action. You need to know what's broken before you can fix it.

Avoid the blame game. Often, scope creep comes down to staff caving in to demands of a pushy client. While you can speak to staff about the importance of avoiding this in future, don't make team members feel bad in front over everyone else.

Speak to the client. Depending on where the scope creep has occurred and how far through you are, you may be able to go back to the client and explain that the work will occur an additional fee, and ask if they still want to go ahead with it.

De-stress the team. Your staff are probably working frantically to make this project happen. Let them know their work is appreciated, and that you have their back if the client complains. Bring donuts. Everything is better with donuts.

Suck it up. Sometimes, you have to take scope creep on the chin and accept that you'll lose money on a job. Look at the situation as a business lesson and develop a plan on how you can prevent scope creep in the future.

PREVENTING SCOPE CREEP

Managing scope creep is one thing – stopping scope creep altogether is an even bigger win. Here are our tips for preventing scope creep impacting your business in the future:

- Create a clear statement of work. If scope creep is a common problem, it might be time to take another look at your engagement letter to make sure you use clear, precise language and record every detail of the client's requirements. Ensure that you get every client to agree to this scope of work. It may be a simple matter of changing the questions you ask the client.

- Document everything. Milestones, deliverables, communication, budget, timeframe – keep strict documentation throughout every stage of a process so you can see problems as they arise and identify scope creep before it takes over.

- Discourage gold plating. Encourage chronic gold platers to express their ideas during the project scoping stage, so they can be incorporated into the budget. Try not to reward gold platers when their initiatives cause serious scope creep, as this sends the message that gold plating is something you expect.

- Include scope changes as part of your process. When onboarding clients, explain where and how along the process they can choose to increase scope, and how that will impact deliverables and costs. You should also require budget flexibility to account for scope changes. This enables you to plan for potential changes, and also shows the client how transparent and accommodating you are.

- Project management software will save your bacon. Project management software helps you identify scope creep before it happens - so you can get clients and the team together to hash out a solution.

- Learn the awesome power of the word 'no'. You're in business to do an awesome job for your clients. It can be hard to feel as though you're disappointing them by not being able to accommodate their requests. Get used to it. Know when a client is being disorganised or has changing requirements and when you're being taken advantage of. Don't let pushy clients walk all over you – embrace the 'no' and you'll be much better off!

- Brief your account managers on what to look out for. The buck stops with account managers, who must approve new requests as they come in. Scope creep often happens in projects overseen by new account managers who don't yet have the understanding of what's included and what isn't. It helps to pair new staff up with experienced professionals who can help them prevent scope creep.

SCOPE CREEP AND YOUR PROCESS

At the end of the day, everything boils down to process. Even the best technology won't help you manage issues like scope creep if you don't have the process to back it up.

Kimberley Sack, senior product marketing specialist at Deltek, says: "No process is set in stone – processes change as organisations evolve, but consistency is key. Create it, test it and change it where needed."

If scope creep is hurting your business, it's likely there's a hole in your process that could be improved. Look at each stage – pitch/briefing, estimating, production, contractors, delivery, invoicing. Ask yourself what could be improved and automated. How early are you identifying issues that could lead to scope creep?

Are you educating your client as part of your process? They need to understand what can realistically be achieved with their budget, resources, and time constraints. You need to clarify reasonable expectations on both sides. Having a detailed statement of work and pre-project discussions aren't going to highlight every potential problem or answer every question, but they're definitely the beginning of a robust process.

Get feedback from your team about what's working and what isn't. Perhaps they need more clarification around deadlines, or scheduling needs to be more flexible to account for ad-hoc assignments? Are bottlenecks or poor communication between departments slowing things down? Who is responsible for communication with the client and what happens when the client contacts a staff member to discuss changing the brief?

By getting clear on your process and what needs to be changed, you're taking the first steps not only to prevent scope creep from destroying your life, but to improve your firm's operation. By tightening up, clarifying, automating, tweaking, and outlining your process, you'll be able to improve your margins, present a more professional image to clients, and save your team from tearing their hair out in frustration.

Scope creep is a normal part of doing business, but if left unchecked it can also sink a business. The key to avoiding the latter is to manage client expectations and make sure you have a clear process that allows for flexibility as and when it's needed.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) for Small and Medium Entities (SMEs)

Bongeka Nodada CA(SA)
SAICA Project Director: Corporate Reporting

With the publication of the amendments to the IFRS for SMEs during 2015, the IFRS Foundation is currently in the process of updating the IFRS for SMEs education modules. These modules are intended to provide additional support to those preparing and reading IFRS for SMEs financial statements. The modules include practical examples that illustrate and explain the requirements simply as well as outline the differences between the IFRS for SMEs and IFRS. You can also test your knowledge of the requirements by answering multiple-choice questions and analysing case studies incorporated in the modules. Ten of the thirty-five modules have been published to date.

THESE TEN MODULES INCLUDE:

- **Module 1 -** Small and Medium-sized Entities
- **Module 3 -** Financial Statement Presentation
- **Module 5 -** Statement of Comprehensive Income and Income Statement
- **Module 6 -** Statement of Changes in Equity and Statement of Income and Retained Earnings
- **Module 7 -** Statement of Cash Flows
- **Module 11 -** Basic Financial Instruments
- **Module 12 -** Other Financial Instrument Issues
- **Module 13 -** Inventories
- **Module 17 -** Property, Plant and Equipment
- **Module 32 -** Events after the End of the Reporting Period

The IFRS Foundation is expected to publish the outstanding in the forthcoming months. The amendments to the IFRS for SMEs were effective for annual periods beginning on or after 1 January 2017.

DOWNLOAD THE MODULES FROM HERE

SAICA FINANCIAL REPORTING GUIDES

Following the withdrawal of Statements of Generally Accepted Accounting Practice during 2012, SAICA took the decision to issue the local interpretations, the AC 500 series, as SAICA Financial Reporting Guides (FRGs). The Financial Reporting Standards Council has subsequently re-issued these FRGs as *Financial Reporting Pronouncements (FRPs)*. As a consequence, the FRGs have been withdrawn. Members should refer to the FRPs for guidance relating to the matters which were addressed in the three FRGs. With the exception of one FRP, the FRPs are also applicable to entities preparing IFRS for SMEs financial statements.

THE CLIMATE CHANGE BILL

SERIES NO.1

Jeremy Grist
Director at Herbst & Liebisch Incorporated

AN INTRODUCTION TO THE BILL AND ITS LIKELY IMPACT

Introduction

On 8 June 2018, the Department of Environmental Affairs released for comment the Climate Change Bill. The goal of the Bill is to "*Build the Republic's effective climate change response and the long term just transition to a climate-resilient and lower-carbon economy and society in the context of an environmentally sustainable development framework; and to provide for matters connected therewith*".

Within the Bill, its objectives seek to ensure that the "*Constitutional right of everyone to dignity, life and an environment that is not harmful to their health and well-being, and to have the environment protected for the benefit of present and future generations while allowing justifiable environmentally sustainable economic and social development*". In order to ensure that this constitutional right is met, the government has committed to introducing measures that will respond to the recognition that "*Anthropogenic climate change represents an urgent threat to human societies and the planetary environment and requires an effective, progressive and incremental response*".

In subscribing to the goals and objectives of the Paris Agreement, the government recognised that the Republic:

- *"Is an emitter of the greenhouse gases identified by the international community as the primary drivers of anthropogenic climate change, and for which the implementation of appropriate responses are urgently required;*
- *Is especially vulnerable to those impacts of climate change that require urgent and appropriate adaptation responses; and*
- *Has committed internationally, to communicate and implement an effective nationally determined climate change response, including mitigation and adaptation actions that represents the Republic's fair contribution to the global climate change response."*

Until now, the South African response to the threats from climate change have been addressed through the White Paper on National Climate Change Response (NCCRP) and the Nationally Determined Contribution (NDC) submitted to the Combating Climate Change secretariat in terms of the Paris Agreement. The NCCRP was released in 2011 and provides the overarching response framework to meet the challenges of the negative impact of climate change on the country. The NDC was the submission by South Africa of the strategies on how the country will contribute to the challenges of climate change.

The risk that currently exists within the country is the inability of the current Policy, Legislative and Regulatory environment to be effectively coordinated to meet the unique challenges of the trans-sectoral impacts of climate change. This Bill recognises this fact and seeks to introduce a nationally driven, coordinated and cooperative legal and administrative response that acknowledges the centrality of the provincial and municipal spheres in achieving its objectives. In order to achieve this, the Bill has three objectives:

- "To provide for a coordinated and integrated response to climate change and its impacts by all spheres of government in accordance with the principles of cooperative governance;
- Provide for the effective management of inevitable climate change impacts through enhancing adaptive capacity, strengthening resilience and reducing vulnerability to climate change, with a view to building social, economic and environmental resilience and an adequate national adaptation response in the context of the global climate change response; and
- Make a fair contribution to the global effort to stabilise greenhouse gas concentrations in the atmosphere at a level that avoids dangerous anthropogenic interference with the climate system within a timeframe and in a manner that enables economic, employment, social and environmental development to proceed in a sustainable manner."

The Bill is intended to bind all the organs of state together in order to achieve its objectives and importantly it states that should there be any conflict between a section of this Bill and any other Act then this proposed Act shall prevail. The intention is therefore quite clear in that there is an expectation that this proposed Act and its requirements will have a significant and lasting impact on the direction of and alignment of Policy and Legislation in the future.

How will the Bill be implemented?

The Bill requires that the Minister of Environmental Affairs has two years to implement a "National Environmentally Sustainable Development Framework" (NESDF) that will ensure that the objects of the proposed Act will be achieved. This framework needs to include:

- Appropriate mechanisms, systems and procedures to achieve the objectives;
- Mechanisms, systems and procedures to give effect to the Republic's obligations in terms of international climate change related agreements; and
- Any other matter which the Minister considers necessary for achieving the objects of the proposed Act.

This framework is significant in that it must enable the assignment and delineation of the existing and potentially new Policies, Legislation and Regulation between the different spheres of government and the different organs of state. There is also the recognition of the fact that there will be the need for the phasing in of the provisions of this framework.

Who will be involved?

The proposed Act requires that there will be the establishment of the Ministerial Committee on Climate Change. It will be co-chaired by the Minister of Environmental Affairs and the Minister for Planning, Monitoring and Evaluation in the Presidency. It will comprise of Ministers from other relevant departments and MECs responsible for the environment. The Key functions of the Ministerial Committee include:

- Coordinating efforts across all sector departments and spheres of government towards a transition to a climate-resilient and lower-carbon economy;
- What areas may require regulation;
- Invite contributions from other relevant departments or stakeholders to inform the coordination efforts;
- The establishment of an Advisory Committee to assist the Committee in the performance of its functions.

The proposed Act also requires that for each Province there will be the establishment of a Provincial Committee on Climate Change. These Committees must include all the Mayors within the Province and relevant Departments in the Province. The Provincial Committees on Climate Change must:

- Coordinate climate change response actions in the relevant Province;
- Recommend any climate change matter to the Ministerial Committee; and
- Provide progress reports on climate change response actions in the relevant Province.

The MEC responsible for the environment or the Mayor in each province must undertake a climate changes needs and response assessment for the Province or the Municipality. This assessment must be revised every five years. In addition, the Province or Municipality must implement a climate change response plan.

What is the expected content in each Plan?

The proposed Act requires that within one year of the proposed Act coming into effect, the MEC responsible for the environment or the Mayor must undertake a climate change needs and response assessment for the Province or the Municipality, and thereafter, within a further two years, develop and implement a climate change response implementation plan that will include:

- Measures or Programmes relating to both the adaptation and mitigation that take account of the risks and vulnerabilities associated with climate change that cover all priority sectors;
- Include mechanisms that will ensure their effective implementation, and importantly align with the National Sector Plans; and
- Comply with any requirements of the MEC or Mayor.

The focus of the proposed Act is on the need for both Mitigation and Adaptation activities to occur. With regards to mitigation the expectation is that there will be Measures and Programmes that align with the relevant national sectorial emission targets that include an analysis of the nature and characteristics of the Province or Municipality and their unique climate change needs and risks that arise from this. They must also identify and establish those measures and mechanisms that will ensure their ability to report effectively on progress made.

Likewise, for adaptation there is the need for the Plan to consider the various adaptation options, based on an analysis of the Province or Municipality and their unique climate change needs risks. The Adaptation Plan must identify and map the various risks, vulnerabilities, areas, ecosystems, communities and households that are vulnerable to climate change. This is more specific than the mitigation requirements as it is recognised that adaptation can be more effectively implemented through behaviour change.

As can be seen from the above, the development of the NESDF is intended to be undertaken at a National Level, while the Provinces and the Municipalities will be required to develop the Response Plans that give effect to the determined requirements of the framework. It is therefore critical that the Ministerial Committee ensures that it is able to build a framework that provide the necessary detail to allow a Province or a Municipality to be able to develop an aligned and responsive plan.

The National Adaptation Strategy

While the Framework is aimed at enabling delivery on the aims of the proposed Act, the National Adaptation Strategy (NAS) will provide National Adaptation Objectives that will guide the Republic's adaptation to climate change impacts, the development of resilience and to a sustainable development agenda. The Strategy will include those Key Performance Indicators (KPIs) as determined by the Minister and the timetable in which these must be achieved. Given the overall aims of this Act, this determination of what the KPIs will be will have a significant impact on all the performance measures across government.

The Strategy will indicate when the National Adaptation Objectives need to be incorporated into the relevant national planning instruments, policies and programmes that address or are intended to address the impacts of climate change. This indicates the significance of the proposed Act in its potential to impact all areas of government and the direction for the integration of climate-related measures and mechanisms to address the negative impacts of climate change.

To ensure its inclusiveness, the proposed Act requires that this Strategy must be managed, developed in consultation with Sector Departments and Provinces, and must be managed in a coherent and coordinated manner. The Strategy is aimed at achieving the following (S10(4)):

- *"A reduction in the vulnerability of society, the economy and the environment to the effects of climate change, strengthening resilience of the socio-economic and environmental system and enhancing the adaptive capacity of the national environment and economy to the impacts of climate change;*
- *Minimising the risk and vulnerabilities to current and future climate scenarios;*
- *Achieving the National Adaptation Objectives;*
- *Providing a strategic and policy directive for adaptation to the impacts of climate change; and*
- *Providing an integrated and coordinated approach to managing adaptation measures to the impacts of climate change by organs of state in all spheres of government, and where relevant should also include non-governmental organisations, the private sector and local communities."*

The content of the Strategy must include the following aspects, which are quite informative. It suggests that the Minister consults with Sector Departments and Provinces with the aim of developing adaptation scenarios that may affect the Republic over the short, medium and long term. The Strategy is required to include (S10(5)):

- *"An outline of the National Adaptation Objectives and Priorities to inform an adaptation response;*
- *A consideration of the Republic's current and fuure climate change scenarios as informed by the adaptation scenarios developed within this Act;*
- *An assessment of the Republic's vulnerability to climate change and related sectoral, cross-sectoral, and geographic level, including a consideration of relevant national disaster assessments in terms of the Disaster Management Act; and*
- *An outline of adaptation options available to reduce identified vulnerabilities by building adaptive capacity and resilience, in the context of actual or anticipated social, economic and environmental costs."*

The determination of the adaptation scenarios is critical in that this information provides guidance to the development of the National Adaptation Objectives and the support of the decision-making required of this Act. The scenarios should include a consideration of (S10(7)):

- *"The systematic observation of the climate system and early warning systems;*
- *The anticipated impacts of climate change on the environment of the Republic and associated vulnerabilities;*
- *The socio-economic implications of climate change within the Republic and associated vulnerabilities; and*
- *The adaption response options available to respond to the anticipated impacts of climate change."*

Implementing the National Adaption Strategy

The implementation of the Strategy is then the responsibility of the Ministers of a Sector or Department and any State-Owned Entity for which a Sector or Department is responsible, who must then (S10(9)):

- *"Identify and map, within the sphere of operations of the relevant Functional Area, risks and vulnerabilities, areas, ecosystems, communities and households that will arise and that are vulnerable to the impacts of climate change; and identification and establishment of measures and mechanisms to manage and implement the required response;*
- *Within two years of the coming into operation of the Act, develop and implement a climate change response implementation plan which must be informed by the assessments undertaken pursuant to the previous paragraph and is reviewed every five years; and*
- *Every four years submit a report on the progress made in the achievement of the climate change response implementation plan."*

The Minister must then collate, compile and synthesise the information relevant to the achievement of the National Adaption Objectives and publish a synthesis report on progress made in a Synthesis Adaption Report for consideration by Cabinet, and a Synthesis Report on Climate Change Adaptation to be used in the Republic's National and International reporting processes.

Conclusion

The proposed Act is expected to have some significant and long-lasting impacts on the country. The Minister of Environmental Affairs has commented recently on the need for government to bring together the various Ministers whose ministries will need to play a part in the achievement of the objectives of this Act. The Minister referred to the importance of the role of these Ministers in ensuring that they all provide an enabling framework within which they would assist in the creation of a climate-resilient country. It will also require the active participation of business and in fact all the citizens of the country to increase their awareness of the part that each and everyone of us can play a part.

Short-term measure shrink economic growth

Bongiwe Mbunge CA(SA), RA, Partner at Mazars

Never has it been more urgent for business leaders to rethink their incentive models in measuring performance than now. Short-term financial results are one of the biggest culprits for the stagnation of economic growth.

The sustainability of businesses on a micro level cannot be excluded from our macro sustainability landscape. Business enterprises continue to be identified as a medium to drive systematic economic growth, however, the inability of business leaders to employ a longer-term sustainability strategy within their value creation remains a challenge.

So long as key personnel are incentivised and measured on short-term aspects of the business, such as the bottom line, we are unable to unlock the true value within our economy.

Quite frequently than not, business leaders are challenged in unlocking value from their number one stakeholders, employees. The value mapping and creative aspect requires strategy, consistency and intentional leadership which business may not have the appetite to invest in this value creation. Organisational culture and vision alignment takes time to turn around and this is the factor which businesses fail to plan towards in many instances.

Disengaged staff are not motivated and are less productive yet the reality of shared responsibility and shared value remains untapped.

Within the South African context, the need for authentic transformation to take place could not be more urgent. Every citizen, business and community have a role to play, yet, transferring this responsibility to the Government to execute will prove futile.

Youth unemployment is at a constant rise, which is a great threat to the sustainability of our country. The collaborative effect of government and business in driving systematic and sustainability progress, inclusivity is progressive and impactful.

Transformation ought to be realised through transfer of skill, creation of opportunities and consistent engagement to align expectations.

Corporate South Africa can no longer afford to not engage the transformation agenda within their strategic framework. It may be comfortable to not embrace change but failure to do so will only aggravate the speed of social unrest, perpetuate hate crimes and racial intolerance, ultimately leading to social unrest. It remains critical to note that people who have nothing, ultimately have nothing to lose.

Business managers who have no performance indicators to improve the transformation agenda will not pursue it. It is the responsibility of business leaders to reflect on whether the key performance indicators of their business managers are in fact driving the right behaviour to achieve their strategic goals through their company values.

Data Analytics:
A welcome disruption or a crystal ball

Angella Makowe Mutonhora CA(SA),
RA Senior technical manager at W.consulting

The advent of technology has been met with both joy and scepticism. I have heard numerous conversations around the watercooler about how we are going to go through world war 3; the difference being that this time, we will be fighting robots. I have been thinking about what could be the common denominator that has led to new technologies, innovations, industry disruptors like blockchain and the bitcoin craze, to name a few. The only common thread I saw was data. With innovation, each individual has specific needs and wants. What drives and grows business is the ability to harness each individual's preferences and create a product or an experience in which the business delivers a well-developed and satisfactory product. Innovation is driven by what the end-user wants. Even though we are all different, in this age of consumerism we all want to feel we purchased a great product or we loved the experience thereof.

Most business owners would like the ability to look into a crystal ball and produce the perfect product. Data analytics could very well be that crystal ball, albeit not in the conventional sense.

Asset management

John Deere (JD) is in the trade of making agricultural equipment and would not have registered as an "innovative" technology disruptor. However, by looking at the end-user experience, JD has basically included technology components within its agricultural equipment such as combining harvesters that come equipped with sensors that transmit mechanical data and enable it to inform farmers if a component is likely to fail at least a month before it does. This seemingly predictive data takes into account the usage of the equipment and thus also assists accountants and auditors to reliably estimate how long an asset will last and when it might be due for replacement. Additionally, the entity can avoid periods of lost productivity by carefully managing and scheduling equipment downtime and maintenance, thus reducing disruption to business processes.

Sales

I have always envied the ability of retail buyers to anticipate what a customer wants and to ensure that they order the right item including size, colour and quantity. Retailers may have had a few hits and misses but then we would not have our famous sale-days, now would we? Nowadays, large retail giants have started surveys, loyalty systems and socially unstructured data-gathering processes to analyse and predict what the customer wants. For instance, with the introduction of loyalty cards, every time these cards are swiped a record of your purchases and ultimately your preferences are highlighted and at some point you will start getting email brochures and catalogues with your preferences. How is that for predictive analytics? Now think about how this information can be used in the budget and forecast process.

Yo Sushi's operation team uses business intelligence software (IBM Cognos) to look for trends: daily, weekly, and monthly, culminating into information that identifies events that trigger spending patterns for the 68 restaurants they own across the world, thus ensuring that they have manpower, ingredients and capacity to handle the surges and make appropriate adjustments to stocks and human resources when there is a lull in the market. They have since realised a drop in wastage and have noted a quicker reaction time to events and anomalies.

> "As we expand rapidly, a lot of factors affect our business at any one time," says Billy Waters, Yo Sushi's IT manager. "[Analytics] enables us to see and react to any revenue increases, declines or unexpected patterns."

Smartphones

Our smartphones are now linked to so many smart devices that harvest our personal data daily, for example fitness applications embedded in our smartphones and watches that gather information from the number of steps that you walked today to monitoring REM sleep. Your phone can communicate and probably knows you better than you know yourself. Scary, isn't it? Human beings are likely to reveal more to a machine/computer than they would to their closest friends and family. If in doubt, feel free to show the next person the last questions you typed in the Google search engine.

Audit and assurance

One of the most important aspects of the audit is planning and risk assessment as it sets the nature of tests, direction of testing and evidence required. An important tool to incorporate in the planning stage is the use of predictive analytics and data mining, which can be applied to larger parts of or the whole population to be audited and thus allowing the auditor to identify outliers and anomalies and direct their testing to higher risk areas. Additionally, incorporating data analytics at the beginning allows for more dynamic audit plans, increased efficiencies throughout the audit and detailed root-cause analysis for value-added management reports. Given all that has happened in the audit landscape, there has never been a more opportune time for audit firms to take a hard look at their audit approach and re-evaluate traditional approaches. Furthermore, technology has resulted in more integrated business processes that combine the three fundamental business process areas: compliance with laws and regulations, financial reporting; and operations, making it difficult to separate them and audit each one in isolation.

It is important to note that data analytics as a discipline is easier said than done. Data, like any other raw material, requires cleansing when it is to be used to provide meaningful information. Data is meaningless on its own. It is paramount that you identify the underlying story to the data and ensure that the data being used can be trusted to make the user's journey meaningful and the audit evidence reliable. Data analytics is not looked upon as a revolutionary tool. It has always been there and has been enhanced by machine learning. It can be described as an evolution. For example, there are data analytics tools and techniques today that are designed to highlight key risks through embedded software that can identify outliers and anomalies for key risk areas in Enterprise Resource Planning (ERP) systems, thus allowing the continuous audit of clients and correcting errors in real time, thereby improving business processes and ensuring, amongst other benefits, less time spent on sampling.

Data analytics is, however, not reserved for the computer or technology savvy, but for everyone who is looking to update their current skill set and learn a new way of achieving the same objective. The accounting professional has always been well-positioned to take on this key skill.

The bottom line is that data analytics can now become a strategic competitive advantage. Companies, despite their size, that focus in this area can out-manoeuvre their competition. We all need to be looking to the future, even if not through a crystal ball.

"It is important to note that data analytics as a discipline is easier said than done. "

OWNER MANAGED EXEMPTION IN TERMS OF SECTION 30(2A) OF THE COMPANIES ACT, 2008

Juanita Steenekamp CA(SA)
SAICA Project Director: Governance and Non-Financial Reporting

The Companies Act, 2008 has an exemption in section 30(2A) that is referred to as the "owner-managed exemption" and this exemption allows certain companies to be exempted from an independent review of their annual financial statements.

The exemption states that if, with respect to a particular company every person who is a holder of, or has a beneficial interest in, any securities issued by that company is also a director of the company, that company is exempt from the requirements to have its annual audited financial statements audited or independently reviewed, but the exemption does not apply to a company if it falls into the class of company that is required to have it annual financial statements audited in terms of the regulations.

Therefore although the section states that the company can be exempt from an audit or independent review, the company can in actual fact only be exempted from the independent review of their annual financial statements, as section 30(2A)(a) specifically excludes companies that require an audit in terms of the regulations in subsection (7)(a) from applying the exemption. The exemption also does not relieve the company of any requirement to have its financial statements audited or reviewed in terms of another law, or in terms of any agreement to which the company is a party.

The question arises on whether a company with a trust as a shareholder or another company as a shareholder can apply the exemption.

The exemption states that it applies to every person who is a holder or has a beneficial interest in any securities issued by that company who is also a director of that company.

While the definition of person in Section 1 of the Companies Act, 2008 includes a juristic person, Section 69 clarifies that a juristic person is ineligible to be appointed as a director. For companies in which beneficial interest holders are juristic persons, for example in a group situation where the shares in a subsidiary company are held by its holding company, the holding company will be disqualified from being appointed as a director and as a result the subsidiary company will not qualify for the exemption from independent review. If a company's shares are held by another company or a trust, then the exemption stated in S30(2A) cannot apply, as the company or trust cannot be a director of the company as it is not a natural person. A trust is specifically included in the definition of "juristic person".

Therefore where a trust / holding company is the shareholder, even if the trustees or holding company directors' are directors of the company, the owner managed exemption cannot apply as section 30(2A) states that all shareholders must be directors but in this case the trust / holding company cannot be appointed as directors and therefore the exemption, cannot apply if the company does not have natural persons as shareholders who can be appointed as directors.

THE IRBA ENTERS ITS SEVENTH INSPECTIONS CYCLE

Imre Nagy CA(SA) RA
Director: Inspection, IRBA

On the 1st of April 2018 the IRBA's Seventh Inspections Cycle commenced. During this new three-year cycle, the IRBA will continue to perform robust inspections in terms of Section 47 of the Auditing Profession Act (APA), 2005 (Act 26 of 2005), as amended. Inspections will continue to be performed on firms, including assurance engagements selected on a risk basis, supplemented by random selection.

There will be an increased focus on firm leadership, which includes the Chief Executive Officer or equivalent and senior executives responsible to operationalise the quality control system within the firm. Firm leadership assumes ultimate responsibility for the firm's system of quality control, including consistency and quality of engagement performance. The quality of engagement performance will be used as an indicator to evaluate the effectiveness of the firm's quality control system, including evaluating the effectiveness of its remediation process during follow-up inspections. As such, if during an inspection previously reported inspection findings of a similar nature are raised with no or little improvement, such failure by the firm/engagement partner to remediate previously reported findings will be viewed in a serious light.

In the new cycle, there will be a change in how inspection findings are reported to the firm leadership, with a shift from result-focused outcomes to remedial action and improvement-focused outcomes from the Inspections Committee.

The IRBA will continue to drive its own formal Remedial Action Process with firm leadership and engagement partners with deficiencies in an effort to prompt remedial action and help improve audit quality.

Said Imre Nagy, Director Inspections: "Inspections is a crucial regulatory function that gives effect to the IRBA's mandate and strategy to protect the public interest by influencing auditors and relevant stakeholders pursuing consistent, sustainable high audit quality that adheres to the highest standards, while maintaining good professional relationships. This is achieved by, among others, employing adequate competent staff and deploying available resources, tools and technology effectively to perform high-quality independent inspections."

The following diagram summarises the inspections and remedial action processes of the Seventh Inspections Cycle.

The Seventh Inspections Cycle Strategy and Process can be accessed under the Inspections section on the IRBA website.

Pre-planning

- Firm's annual declaration (must be timely, accurate and complete).
- Cycle/Annual themes and scope.
- Annual risk & capacity budget.
- Annual Performance Plan (performance targets).
- Business Intelligence (BI) risk analysis and report.
- Risk-based selection (firm/engagement partner/ assurance engagement).
- Financial reporting inspection and report.
- Risk-based selection (component/focus areas).
- Planning and allocating appropriate resources to specialised areas.

Planning & Execution

- Scheduling of selected firm/engagement partner.
- Complete and accurate preliminary information submitted to the IRBA in the specified time.
- Performing inspections with technical support by a dynamic/ multi-skilled team.
- Discussion of findings with firm/engagement partner/team.
- Team leader supervision, review and guidance.
- Dedicated team leader at larger firms to liaise with firm leadership.
- Robust internal and independent Quality Control Review.
- Issue and discuss the Preliminary Findings Report.
- Auditors submit complete and succinct written comments, including relevant supporting evidence, to the IRBA in the specified time.
- Anonymous evaluation of inspector by auditor (optional but encouraged).
- Ongoing communication and consultation, where deemed necessary.
- Additional internal and independent Quality Control Review.

Reporting and submission to INSCOM*

- Anonymised draft inspection reports, with comment letters, submitted to INSCOM.
- Report includes reportable findings that require remediation by firm/engagement partners in order to improve audit quality.
- INSCOM meets four times a year on a quarterly basis.
- INSCOM determines and communicates further action required (if any
- Action/conditions required (see Remedial Action Process below).
- INSCOM determines if any specific re-inspection is required and the extent thereof.
- Written formal inspections report issued to firm leadership (CEO or equivalent) and this includes INSCOM's decision on any further action/conditions required and special messages.
- Reconsideration process available (evidence based only).

Remedial Action Process (RAP)

- INSCOM requires a written undertaking within the specified time that appropriate action to remediate all reported findings will be implemented by the firm and its engagement partners.
- General action/condition INSCOM requires a Root Cause Analysis and Action Plan (RCAAP) to be submitted within the specified time, including any supporting evidence.
- Specific action/condition - INSCOM may also require additional specification/conditions to be met by the firm/ engagement partner within a specified time, supported by evidence.
- The IRBA evaluates the RCAAP and evidence received and engages with
- the firm/engagement partner, where deemed necessary.
- Continued non-compliance and failed remediation reported to INSCOM
- may lead to an investigation/disciplinary action.
- Publish key inspection findings, e.g. the Annual Public Inspections Report.
- Feedback to relevant stakeholders.
- Drive a broader proactive audit quality improvement strategy, with relevant stakeholders on areas where it is most needed.

TOP TIPS FOR MORE EFFICIENT PRACTICE

Mike Francis
Founder of Practice Engine

Most accounting firms run along fairly traditional lines: partners at the top, with a varied team reporting to them, working on a variety of clients. Some are very efficient, effective and profitable, others not so. What follows are a small number of tips that may help those looking for improvement in managing their practices.

CHANGE

In order to become more efficient, you have to change. If you do what you have always done, you will get what you have always got! Not great English, but very true. Review your processes and recording structures and ensure they support effectiveness and efficiency.

VALUE/AGREED PRICING

If you are not doing this, it is most probably the major key to efficiency. You need to have the pricing discussion at the beginning of the engagement, not a squabble after the end. Pricing on the basis of value to the client, and having this agreed is a great start.

DEPOSITS AND REGULAR INVOICES

Tied to the above is the way in which you invoice and collect cash from clients. For all engagements in excess of a value, request an initial deposit, and agree the payment terms up-front. This avoids any arguments and surprises for the firm or the client.

JOBS/MATTERS/ASSIGNMENTS/PROJECTS

Treat all work as one of the above. Each client may well have more than one. In certain firms, the control and ownership will vary between partners. Ensure that similar jobs between different clients have a way of being compared. Comparative and exception reporting on job metrics are a very powerful tool.

Jobs also have dates and deadlines which need to be met. The delivery of the outcome at the agreed price is the objective, and deviations from this path must be controlled.

PROCESS REVIEW

All production and back-office processes must be reviewed and optimised. In the production area, one of the biggest causes of cost overruns is the picking up and putting down of work files without moving the project forward. These stoppages must be removed. Linear progress is the objective – start a job, get it completed, billed and collected.

The same applies for back-office processes. Invoicing for work performed is a classic case of too many touches before completion. Using agreed pricing and agreed billing profiles removes this completely.

COMPARATIVE AND EXCEPTION REPORTING

If you are running your firm based on the same reports as five or ten years ago, you have a problem. Times have changed. Comparative reporting allows the firm to identify which partners and clients are optimised, and can therefore apply those processes across the board to have a general improvement.

Exception reporting draws attention to outcomes which are either good or bad. Improve the good, reduce the bad, and the effects can be profound.

LEADERSHIP

If the firm is using time sheets to record processes and work, it is vital that the leader group of partners and manager get theirs completed first and best. Do not expect the rest of the team to be serious about something the leaders don't appear to be.

Concentrate improvement in a number of smaller manageable areas rather than going for a Big Bang approach. Multiple small achievable gains aggregated together make for big change. Ride the rodeo of change, you may just enjoy it!

need 2 KNOW

GUIDE TO USING INTERNATIONAL STANDARDS ON AUDITING IN THE AUDITS OF SMALL- AND MEDIUM-SIZED ENTITIES

This Guide helps firms efficiently and proportionally apply the ISAs on SME audits and is designed for use by all practitioners.

IFRS FOR SMES MODULES

The IFRS Foundation is developing stand-alone modules, one for each section of the 2015 version of the IFRS for SMEs Standard.

FILING OF ANNUAL FINANCIAL STATEMENTS TO THE CIPC IN XBRL

The frequently asked questions guide.

NOTICE 42 2018: MANDATORY SUBMISSION OF AFS & FAS

From 1 July 2018 companies or closed corporations must submit either audited financials via the XBRL portal or a Financial Accountability Supplement via the CIPC website.

NOTICE 44 2018: CIPC XBRL PORTAL AS FROM 01 JULY 2018

The CIPC's XBRL Portal was rolled out for live filings of Annual Financial Statements on 1 July 2018.

NOTICE 47 OF 2018: ACTIVATION OF NEW E-MAIL ADDRESSES FOR BUSINESS RESCUE PRACTITIONERS FILING

To ensure efficiency, the CIPC has created separate mailboxes for appointment and licensing of business rescue practitioners.

NOTICE 48 OF 2018: CIPC XBRL TAXONOMY DATA MODEL FOR PUBLIC CONSUMPTION

The CIPC has implemented filing AFS via XBRL on 1 July 2018. The AFS are based on the IFRS Taxonomy as published by the IASB on 1 March 2016.

NOTICE 51 OF 2018: GUIDELINES FOR THE APPLICATION FOR LICENSING AS A BUSINESS RESCUE PRACTITIONER

The following form and supporting documents are required by the CIPC for issuing a license for Business Rescue practitioners. Note that Notice 48 of 2016 has been withdrawn and replaced by this notice.

NOTICE 52 OF 2018: ANNUAL FINANCIAL STATEMENTS AND FINANCIAL ACCOUNTABILITY SUPPLEMENTS

It has come to CIPC's attention that entities continue to file their Annual Returns and fail to submit either Annual Financial Statements or Financial Accountability Supplements.

RESOURCE ROUNDUP: IMPLEMENTATION SUPPORT FOR SMALL AND MEDIUM PRACTICES

A brief round-up of all the guides published for SMPs.

UPDATED PRACTICAL SUPPORT AND GUIDANCE FOR SMALL BUSINESS AUDITS

This Guide helps firms efficiently and proportionally apply the ISAs on SME audits and is designed for use by all practitioners.

WE'RE PART OF THE SOLUTION: THE GLOBAL ACCOUNTANCY PROFESSION MAKING A DENT IN CORRUPTION

IFAC hosted an event which brought together leaders from the G20 policy forum, business, and professions, to focus on collective action for tackling corruption worldwide.

TEN TAXPAYERS SENTENCED FOR FAILURE TO SUBMIT TAX RETURNS

Ten taxpayers have been convicted and sentenced since April 2018 for failure to submit outstanding tax returns.

IFRS 16: ARE YOU READY FOR THE CHANGE TO LEASES?

IFRS 16 takes effect for listed companies from 1 January 2019 and is expected to represent a significant improvement in lease accounting.

ASB'S PERFORMANCE MEASURES FRAMEWORK: CAN IT HELP AUDITORS WITH A NEW ASSURANCE ROLE?

The Accounting Standards Board (ASB) developed a draft Framework on Reporting Performance Measures. This could be a first step towards criteria that enable auditors to provide assurance over performance measures.

AUDIT INSIGHTS: INVESTMENT MANAGEMENT

In this Audit insights report, external auditors explore whether the investment management industry is fit for purpose and use their expert knowledge to identify what changes need to be made.

TECH talk

Small Practices: Embrace Technology and Secure your Future
What technologies should small- and medium-sized practices embrace today in order to be future ready?

Top tips for preventing cybercrime
Has your business been hacked or lost your clients' personal data? If the answer is yes, you're far from alone.

4 skills accountants need to succeed in a tech-enabled future
New duties will require plenty of understanding and good communication.

The Efficiency Benefits of Niching From The Start To Launch An Advisory Firm
Businesses without any clear focus and target clientele can lead to significant problems with efficiency.

Impact of technology on Financial Services
The greatest challenges and opportunities for most Financial Services businesses today stem from technology.

How Secure Is Your Client's Data?
If no one is too big to fail, it's also true that you are never too small to be hacked.

Cybersecurity Risk Considerations in a Financial Statements Audit
This publication demonstrates how cybersecurity risk and cyber-attacks can impact an entity's financial statements and its related audit.

Learning to go beyond disruption
Learn. Unlearn. Relearn.

Beyond robotics: How AI can help improve the audit process
Intelligent Process Automation (IPA) expands its functions to make automation scalable, flexible and intelligent.

Blockchain beyond the hype: What is the strategic business value?
Companies can determine whether they should invest in blockchain by focusing on specific use cases and their market position.

Evolving Expectations for Accountants Means Changing Needs for Education & Training
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.

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.

PRACTICE MANAGEMENT

Three Ways to Effectively Manage Fee Pressure
Pressure to lower fees has consistently appeared as one of the top challenges facing SMPs, here are some tips to managing fee pressure.

Skepticism: the practitioners' take
Without professional skepticism the audit has no value. It's at the heart of what auditors do, but the idea of skepticism is not easy to pin down.

How to audit culture
A practical guide outlining the steps to follow to conduct a successful internal audit of culture.

Accounting as a Social and Moral Practice
Accounting is a practice that underlies and enables organisational action and much of human activity.

Your Brand Has Value – Time to Realise Its Tangible Benefits
You've worked hard to earn your professional qualification and build and grow your own practice. But when did you last pause to review your firm's brand?

Evolving Expectations for Accountants Means Changing Needs for Education and Training
Mobility of accountancy professionals, enhanced quality of services provided and increased cooperation promoting the adoption of international standards and best practices. These are some of the benefits of mutual recognition agreements that enable accountancy professionals to work globally.

Use data analytics to deliver distinctive experiences to your accounting clients
The accounting profession is well-placed to take advantage of the emerging data analytics revolution but it will require a redesign for many firms, as well as a major change of mindset.

Driving Improvement
Overseeing transformation of one kind or another is an inevitable part of the job and one that requires a wide range of skills.

Be the change accounting needs
The accounting profession faces a wide and deep restructuring of its foundations.

3 strategies to transform leaders into better managers
Leaders will have to harness and foster new skills for both themselves and their employees.

Restoring trust and relevance for the future of corporate reporting
Corporate reporting needs a radical overhaul to ensure it remains relevant and capable of adapting to respond to the key challenges facing business today.

Top tips for creating an effective board agenda
It is vital that the agenda of each meeting is properly structured in order to ensure that the governing body considers the right issues and thus makes the right decisions.

How to get the benefits from governance reporting
The key here is the requirement to explain. Explanation means that stakeholders can easily ascertain whether the organisation is making satisfactory progress towards good governance.

Accounting Education Insights: How Can We Become Better Skeptics?
This article examines what it takes to become a "good" skeptic and how the accountancy profession can develop or enhance the areas that underpin skepticism.