



SMALL & MEDIUM PRACTICES

Newsletter



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THE INTERNATIONAL CODE OF ETHICS

FOR PROFESSIONAL ACCOUNTANTS - KEY AREAS OF FOCUS FOR SMALL AND MEDIUM SIZED PRACTICES

By **Diane Jules**, Deputy Director, IESBA and **Robyn Erskine**, Partner, Brooke Bird & IFAC SMP Committee Member (September 2018)
 Reproduced by **SAICA** (September 2019)

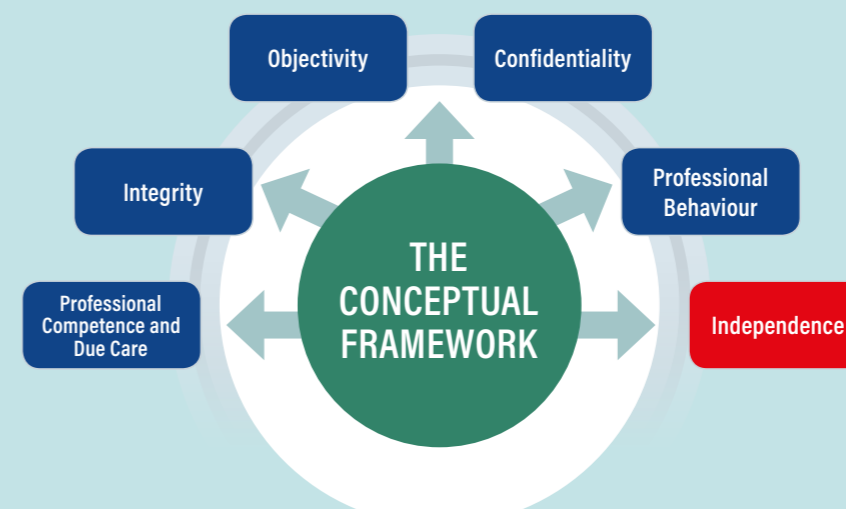
In early April 2018, the IESBA released a completely rewritten and revamped Code of Ethics for professional accountants (PAs), renamed the [International Code of Ethics for Professional Accountants \(including International Independence Standards\)](#) ('the Code' or 'the revised and restructured Code') that came into effect in June 2019. The Code packages all substantive advancements in ethics and independence over the last four years into a single document and includes the new provisions relating to [non-compliance with law and regulations](#) (NOCLAR), which are already effective since July 2017, and the revised independence provisions relating to [long association](#) which came into effect in December 2018.

Key Areas of Focus

The fundamental principles within the Code – integrity, objectivity, professional competence and due care, confidentiality and professional behaviour – establish the standard of behaviour expected of a professional accountant (PA) and it reflects the profession's recognition of its public interest responsibility. Those fundamental principles as well as the categories of threats to them – self-review, self-interest, advocacy, familiarity and intimidation threats are unchanged. Also unchanged, are the overarching requirements to apply the conceptual framework to comply with the fundamental principles and where applicable, be independent. In addition to the structural revisions

made to the entire Code, the substantive revisions specific to PAs in Public Practice (PAPPs), specifically Small and Medium Practices (SMPs) include:

- An enhanced conceptual framework, which includes extensive revisions to 'safeguards' throughout the Code that are better aligned to threats;
- Strengthened independence provisions regarding long association of personnel with audit clients;
- Strengthened provisions relating to offering and accepting of inducements, including gifts and hospitality;
- Clarifications about the applicability of PAs in business (PAIBs) provisions to PAPPs;
- New material to emphasise the importance of understanding facts and circumstances when exercising professional judgement; and
- New material to explain how compliance with the fundamental principles supports the exercise of professional scepticism in an audit or other assurance engagements.

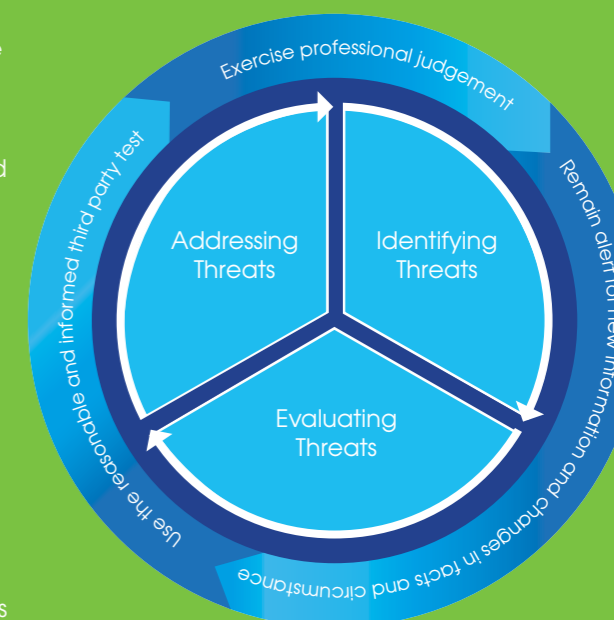


THE FUNDAMENTAL PRINCIPLES WITHIN THE CODE – **INTEGRITY, OBJECTIVITY, PROFESSIONAL COMPETENCE AND DUE CARE, CONFIDENTIALITY AND PROFESSIONAL BEHAVIOUR**

An Enhanced Conceptual Framework

The conceptual framework is a set of principles-based provisions in Section 120, The Conceptual Framework of the Code that all PAs are required to apply to deal with ethics and independence issues. It applies to all PAs and outlines a three-step approach involving identifying, evaluating and addressing threats to compliance with the fundamental principles and, where applicable, independence.

Extensive revisions have been made to the conceptual framework to strengthen and clarify how all PAs are required to identify, evaluate and address threats to the fundamental principles and where applicable, be independent. SMPs should especially take note of the clarifications relating to how PAs should address threats, including the new requirement for PAs to 'stand back' and think about whether the overall conclusion made or actions they have taken are appropriate to resolve the issue.



The enhanced conceptual framework emphasises that threats are addressed either by eliminating the circumstances creating the threats; applying safeguards where they are available or capable of reducing the identified threats to an acceptable level; or by declining or ending the specific professional activity or service.

In response to concerns from the regulatory community that some safeguards were not specific or effective enough, the enhanced conceptual framework now includes a more robust definition of safeguards which is 'actions, either individually or in combination, that a PA takes that effectively reduce threats to compliance with the fundamental principles to an acceptable level.' **It is no longer a valid notion that all threats can be addressed by the application of safeguards.** The enhanced conceptual framework clarifies that in certain circumstances, the PA may not have any other option but to decline, or end the specific professional activity, or service.



SAFEGUARDS ARE ACTIONS, EITHER INDIVIDUALLY OR IN COMBINATION THAT A PA TAKES THAT EFFECTIVELY REDUCE THREATS TO COMPLIANCE WITH THE FUNDAMENTAL PRINCIPLES TO AN ACCEPTABLE LEVEL.

In particular, SMPs should note the distinction between safeguards and 'conditions, policies and procedures' which are in contrast routine in nature and may assist the PA in identifying and evaluating threats. The conceptual framework clarifies that the conditions, policies and procedures that are established by profession, legislation, regulation, the firm, or the employing organisation to enhance PAs acting ethically are not safeguards because they are not specifically designed to deal with a particular threat. Clearer descriptions and definitions of other key terms such as 'reasonable and informed third party (RITP)' and 'acceptable level' are established, and a new term 'appropriate reviewer' was introduced.

The Code explains that a RITP test is a concept which involves consideration by a PA about whether the same conclusions would likely be reached by another party (i.e. RITP). The RITP test is made from the perspective of a RITP, and involves weighing all the relevant facts and circumstances that a PA knows, or could reasonably be expected to know, at the time that the conclusions are made. A RITP does not need to be a PA, but should possess relevant knowledge and experience to understand and evaluate the appropriateness of the PA's conclusions in an impartial manner. The revised description of acceptable level in the enhanced conceptual framework is more closely linked with the concept of RITP test and clarifies that it is the level at which a PA using the RITP test would likely conclude that the PA complies with the fundamental principles.

The enhanced conceptual framework more prominently features the requirement for all PAs to remain alert for new information, or changes to facts and circumstances in applying the conceptual framework. It also explains that once a PA becomes aware of new information or changes to facts and circumstances that might impact whether a threat has been eliminated or reduced to an acceptable level, the PA should evaluate and address that threat accordingly. The enhanced conceptual framework also emphasises that PAs are required to exercise professional judgement and use the concept of the RITP test in all three stages of applying the conceptual framework.

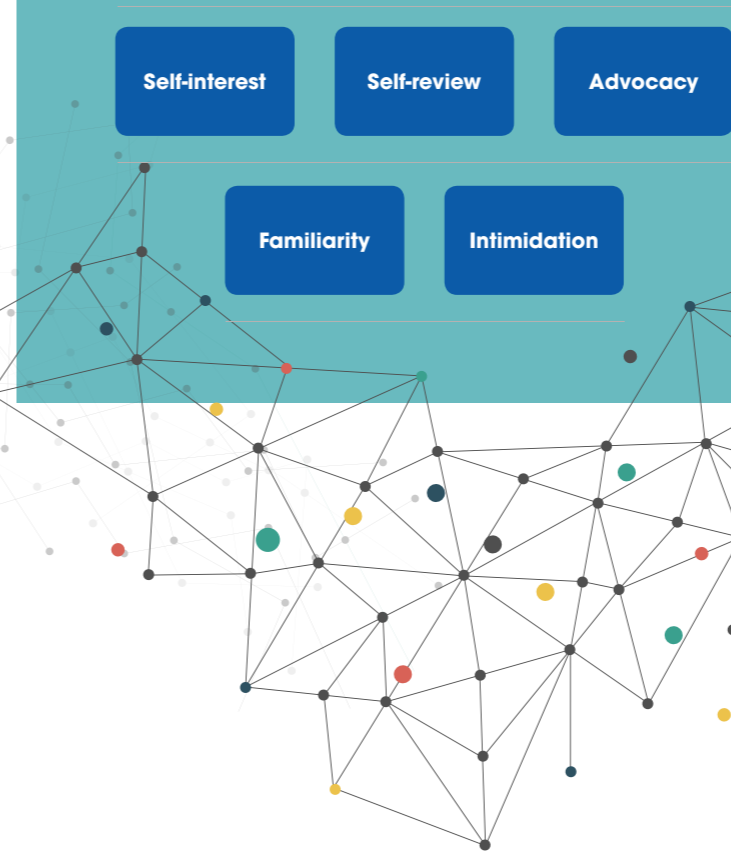
Finally, the enhanced conceptual framework includes new application material to explain that firms and network firms are to apply the conceptual framework to identify, evaluate and address threats to independence. Responsive to questions about firms' responsibilities for independence, the Code refers to the International Auditing and Assurance Standards Board's (IAASB) ISQC 1⁵ standard which requires firms to establish policies and procedures for complying with independence.

⁵ The Sustainability Standing Committee is a standing committee of the IRBA's Committee for Auditing Standards.

Application of the Conceptual Framework in Relation to Non-Assurance Services

SMPs should take note of the revisions to the independence provisions relating to the provision of non-assurance services (NAS) to audit and assurance clients. Substantive revisions have been made to better explain how firms and network firms are to apply the conceptual framework to deal with independence threats created when NAS are provided to audit and assurance clients. The prohibitions in the Code relating to NAS are now more prominent, including the overarching prohibition relating to assuming management responsibilities which applies when providing all types of NAS to audit clients. Also, it is now clear which NAS provisions apply in all circumstances; versus which ones apply to audits of entities that are public interest entities (PIEs); and to audits of entities that are not PIEs.

In line with the new description of **safeguards in the conceptual framework, the examples of actions that might be safeguards in the NAS section of the Code are much clearer and are more closely aligned to the specific category of threats.** The Code clarifies that in some situations, safeguards are not available or capable of reducing the threats that are created by providing NAS to audit clients to an acceptable level, and that if such threats cannot be eliminated, the firm or network firm must decline or end the NAS or the audit engagement.



Provision of Recruiting Services to Audit Clients

The Code establishes a new description of recruiting services and clarifies the types of recruiting services that firms and network firms are prohibited from providing to their audit clients. One of those prohibitions relates to **searching for, or seeking out candidates and undertaking reference checks of prospective candidates** for directors or officers of the entity, and

senior management in a position to exert significant influence over the affairs of the clients which **is now extended to all entities. It no longer applies to only audits of entities that are PIEs, unlike the extant Code.** This is because the IESBA has determined that there are no safeguards available to deal with the familiarity and self-interest threats that are created by providing such recruiting services to audit clients in general.



Long Association

In December 2017, the IESBA finalised changes to its independence provisions relating to long association of personnel with an audit or assurance client, which contain a number of substantive improvements, including a strengthened partner rotation regime for audits of public interest entities. The revised long association provisions were initially drafted in accordance with the structure and drafting conventions of the 2016 edition of the IESBA [Code of Ethics for Professional Accountants](#) ('the extant Code') and is set out in a January 2017 [close-off document](#). Those revisions came into effect in December 2018. In finalising the revised and restructured Code, restructuring and conforming safeguards-related revisions were made to the long association provisions. However, those revisions did not change the substance of the long association provisions.

Also in January 2017, in addition to the related IESBA staff-prepared [Basis for Conclusions](#) document, a staff-prepared [Q&A publication](#) was finalised to assist in the adoption and implementation of the revised long association provisions. A new [Q&A publication](#) has been updated to align with the paragraph references in the revised and restructured Code and is now available on the IESBA's website.



Inducements

A few months after the April 2018 release of the revised and restructured Code, the IESBA released [revised inducement provisions](#). Those revised provisions clarify the meaning of inducements, and introduce a more robust and comprehensive framework which clearly delineates the boundaries of acceptable inducements and guides the behaviours of PAPPs in all situations involving inducements. Central to this framework is a new intent test that prohibits the offering or accepting of inducements where there is actual or perceived intent to improperly influence the behaviour of the recipient or of another individual. A related Staff-prepared [Basis for Conclusions](#) summarises the rationale for the IESBA's revisions.

The revised inducement provisions complements the [NOCLAR provisions](#)² which came into effect in July 2017 and offer a full system of ethical defences that relate both to malfeasance committed by others and to PAs' own involvement in potentially unethical behaviours. They represent the last, but no less important, piece of the revised and restructured Code and have the same effective date – June 2019.

Clarification about Applicability of PAIB Provisions to PAPPs

The IESBA believes that PAPPs – i.e. PAs and firms that provide professional services – might face similar issues and ethical dilemmas as professional PAIBs. Therefore, in finalising the revised and restructured Code, the IESBA established new requirements and application material to clarify that Part 2³ of the Code may be relevant to PAPPs when they perform professional activities pursuant to their relationship with the firm, whether as contractors, employees or owners of the firm. SMPs should take note of the various examples that are included in Part 3⁴ of the Code to illustrate examples of such situations.



Professional Judgement

In relation to professional judgement, the Code highlights its importance in identifying, evaluating and addressing threats in order to make informed decisions, and to obtain an understanding of specific facts and circumstances, including the nature and scope of the professional activity or service; and the interest and relationship involved. New material has been added to the Code to help PAs better understand what to consider in exercising professional judgement. For example, the Code explains that among other matters, exercising professional judgement involves a consideration of whether:

- There is reason to be concerned that potentially relevant information might be missing from the facts and circumstances known to the PA;
- There is an inconsistency between the known facts and circumstances and the PA's expectations;
- The PA's expertise and experience are sufficient to reach a conclusion;
- There is a need to consult with others with relevant expertise or experience;
- The information provides a reasonable basis on which to reach a conclusion;
- The PA's own preconception or bias might be affecting the accountant's exercise of professional judgement; and
- There might be other reasonable conclusions that could be reached from the available information.

The new material relating to professional judgement is intended to make more explicit procedures that PAs should already be doing under the extant Code and is expected to ensure that PAs exercise professional judgement in a more consistent manner.

Professional Scepticism

In response to a recommendation from a tripartite Professional Scepticism Working Group (PSWG) comprising representatives of the IAASB, the IESBA and the International Accounting Education Standards Board (IAESB), which was established in 2015, and recognising the public interest in promoting the application of professional scepticism in audits, reviews and other assurance engagements, the IESBA determined that it would be important to supplement the Code's existing few references to professional scepticism. The Code now explains how compliance with the fundamental

principles supports the exercise of professional scepticism by illustrating this linkage in the context of an audit of financial statements.

In finalising the material relating to professional scepticism, the IESBA signalled the need for further work to respond to broader concerns identified by some of its stakeholders and the PIOB. In this regard, the IESBA has summarised these issues as well as options for a way forward in a May 2018 [Consultation Paper \(CP\)](#), Professional Scepticism – Meeting Public Expectations. Specifically, the CP explores the behavioural characteristics comprised in the concept of professional scepticism; whether all PAs should be required to apply those behavioural characteristics; and whether, and if so how, the Code should be revised to describe those behaviours.

NOTE: Informed by the feedback from the CP, at its June 2019 meeting, the released an exposure draft, [Proposed Revisions to the Code to Promote the Role and Mindset Expected of Professional Accountants](#) on July 31, 2019. Comments are due on October 31, 2019. An IESBA hosted webinar is being held on September 10, 2019 to highlight key aspects of the proposals.

Restructuring Changes

In addition to the more substantive revisions discussed above, the Code includes several structural revisions that contribute to making it more user friendly. Responsive to stakeholders' requests to clearly distinguish requirements from application material, requirement paragraphs are identified by the letter 'R' and application material that explain those requirements are generally positioned next to them in paragraphs that are identified by the letter 'A'. The language in the Code is now clearer. Where possible, duplicative material is avoided; complex sentence structures are simplified; and passive voice, legalistic and archaic terms are avoided. The Code includes a Glossary with descriptions and definitions of terms which have a specific meaning.

The new structure and drafting convention for the Code establishes a new architecture that emphasises the Code's scalability.

² In finalising the revised and restructured Code, restructuring changes were made to the NOCLAR provisions. Those changes were not substantive.

³ Part 2 – Professional Accountants in Business

⁴ Part 3 – Professional Accountants in Public Practice

⁴ Part 3 – Professional Accountants in Public Practice



PART 1	Complying with the Code, Fundamental Principles and Conceptual Framework (Sections 100 to 199)	(All Professional Accountants)
PART 2	Professional Accountants in Business (PAIBs) (Sections 200 to 299)	(Part 2 is also applicable to individual PAPPs when performing professional activities pursuant to their relationship with the firm)
PART 3	Professional Accountants in Public Practice (PAPPs) (Sections 300 to 399)	
PART 4A & 4B	International Independence Standards Part 4A-Independence for Audits & Reviews Part 4B-Independence for Assurance Engagements Other than Audit & Review Engagements	(Sections 400 to 899) (Sections 900 to 999)
GLOSSARY (All Professional Accountants)		

Guide to the Code

The Code is accompanied by a Guide to the Code to assist readers to better understand its purpose, how the Code is structured, and how to use it. This Guide is non-authoritative and does not form part of the Code itself. SMEs and SMPs are encouraged to familiarise themselves with the Guide, as this will certainly help them navigate the various parts and sections of the Code, including the International Independence Standards.

- Five staff-prepared Basis for Conclusions to explain the rationale for the revisions in relation to Structure, Safeguards, Applicability, Professional Scepticism and Professional Judgment, and Inducements.
- A Table of Concordance which compares the paragraphs in the extant Code to those in the revised restructured Code.
- Resources relating to the NOCLAR and Long Association, including related Bases for Conclusion and Staff Q&A documents.

Additional resources and tools, including additional Staff Q&As are being developed and will soon be added. SMPs are encouraged to visit the [Revised and Restructured Code](#) webpage regularly. Stakeholders, including SMEs and SMPs, may [request permission](#) (log-in required) to reproduce or translate the Code and the related resources and tools.

Documentation

The Code carries forward the existing guidance relating to documentation. However, as a form of good practice relating to how they support identifying, evaluating and addressing threats, SMPs may decide that it is helpful to document the details of relevant discussions, actions taken, significant judgements made and conclusions reached.

Adoption and Implementation Support

SMPs should have implemented the code since it is already in effect. The Code is included in the 2018 edition of the [IESBA Handbook](#), which is now available for purchase. A [one-stop-shop webpage](#) on the IESBA's website houses resources and tools to assist in the promotion, adoption and effective implementation of the Code. These resources and tools include:

- A one-pager which summarises the changes to the Code.
- A series of videos explaining key aspects of the Code.
- A deck of PowerPoint Slides to assist those who wish to deliver presentations about the changes to the Code.

The IESBA eCode

On June 26, 2019, the IESBA launched the eCode – a web-based tool that delivers the Code on a digital platform. In addition to 'app-like' features and functionalities, this new platform better demonstrates the Code's 'building blocks' architecture and scalability.



The eCode represents the outcome of a strategic initiative to leverage modern technologies, including mobile access, to make the content of the Code as widely accessible and visible and as user-friendly as possible. In addition to enhanced search and navigation, the eCode includes links to non-authoritative resources that provide contextual information or explain the rationale for particular provisions in the Code.

The eCode is available free-of-charge at www.IESBAeCode.org. The IESBA welcomes feedback from all stakeholders. In particular, views are sought about usability features, national adoption of the eCode platform, and areas for further improvement from firms, national standard setters, regulators and audit oversight bodies, professional accountancy organisations, investors and academia. Please email suggestions to IESBAeCode@ethicsboard.org.

[Click here](#) to access tutorial-styled video on the features of the eCode.

To Recap

The Code results from the completion of a number of substantive IESBA projects, including the Structure of the Code, Safeguards, and Revision of Part C. It also packages recently completed projects – NOCLAR and Long Association.

Informed by extensive stakeholder engagement over a five-year period, the revised and restructured Code is responsive to long-standing concerns about the Code. It also:

- Responds to concerns that the biggest barrier faced by SMPs in complying with the existing Code relates to a lack of a full understanding of its requirements.
- Addresses issues raised by regulators and the PIOB about the robustness of certain provisions in the Code (e.g. safeguards) and its overall enforceability.
- Establishes an integrated set of ethics and independence provisions that are easier to use, navigate and enforce.

The SMP Committee has been actively monitoring the IESBA work on each of the various projects and has engaged with the IESBA often to provide input and suggestions with a focus on matters that impact SME and SMPs constituents.

The SMP Committee notes that the IESBA's [Strategy and Work Plan for 2019-2023](#) includes a commitment to promote awareness of the Code and its adoption and effective implementation, including development of an eCode. SMPs are encouraged to remain engaged and provide input to the IESBA's ongoing initiatives and future projects. Learn more about IESBA's projects and initiatives at: www.ethicsboard.org/projects.

The IESBA have committed that no further changes will come into effect before June 2020.

South Africa

SAICA has adopted the Code and the SAICA Code of Professional Conduct (revised 2018) that came into effect from 15 June 2019. More information is available on the [SAICA website](#).





BUILD FOR HUMANS.
BUILD FOR EMOTIONAL USERS.



BUILD FOR EMOTIONAL HUMANS

By **Tramayne Monaghan** CA (SA)

Chief Innovation Officer Tencent Africa and Head of Tencent Games Africa

Building a business is hard. Building an application (app) has become easy. But how does your app become a business? How does your product lead to retention and success of users and customers?

We live in a world that demands speed and precision. We want our apps to work and perform the jobs they were designed to do in the most efficient way. We want these apps to be 'three clicks to success'.

I recently sat in an advisory meeting with a startup where I was trying to distill the essence of questions a founder needs to answer. I fundamentally understood the product and the need, but I did not see the emotional hook. Why are people going to keep going back? Much to the Chief Technology Officer's disgust, I proclaimed 'the technology was the easy part!'

If you juxtapose the need to build a 'quick and dirty' product against the need to build for humans, you cannot win. Reid Hoffman has said if you are not embarrassed by the first product, you took too long to release it.

But what is wrong with building for this? A feature stack does not build retention alone. And as I said, a feature stack is the easy part. The product stack and solution is what most founders focus on but how do you encapsulate the emotions of a human?

How do you make a user feel like they have been pulled into an app of their own volition and successfully unlocked the exact value they sought (or did not even know they needed)?

Nir Eyal, the author of *Hooked*, says that any habit-forming product needs to have an action in anticipation of a variable reward. The action needs to be linked to motivation. The user needs to feel a pull towards the product to use it. Psychologically, this pull is for a human to seek pleasure and avoid pain, seek hope and avoid fear. These are human emotions. These are the inner thinking and desires for an app that is supposed to be precise and fast. An app that needs to do a single job.

This is a hard problem, but not insurmountable:

1. **Build for a market** you have identified and identify their emotional triggers upfront. Never underestimate the problem to be solved and never underestimate how difficult it is to predict human behaviour.
2. Use the **Hook Cycle** to identify when and where the emotions of humans can be used as triggers, and use cases for your product. Think about the flow of the product, understand the entry method and how to get consumers back. A one-time customer is impossible to monetise.
3. **Make technology an enabler** of the problem-solving behaviour. Technology is everywhere. Developers can be found a dime a dozen. What makes businesses is that technology answers hard foundational truths. It enables the product to function. But then by definition, it is secondary.

(Disclaimer: This is obviously not the case with incredibly complex technological issues in artificial intelligence and blockchain - this is for the 'normal' app builder).



THE ANSWER IS ACTUALLY SIMPLE:
THINK ABOUT **EMOTIONS** AND THE
PROBLEM TO BE SOLVED BY THE APP,
PLAN AND VALIDATE THESE TWO
THINGS AND THEN BUILD.

BUILD FOR HUMANS.
TAP INTO THE EMOTIONS OF YOUR
USERS AND THEIR PROBLEMS AND THE
SOLUTION YOU WANT TO OFFER.
BUILD FOR EMOTIONAL USERS.



BEFORE ACCEPTING YOUR SUSTAINABILITY ASSURANCE ENGAGEMENT

By **Nicolette Bester**
Professional Manager: Standards at IRBA

Are you aware that the Independent Regulatory Board for Auditors (IRBA) has developed and issued South African Assurance Engagements Practice Statement (SAAEPS) 1, Sustainability Assurance Engagements: Rational Purpose, Appropriateness of Underlying Subject Matter and Suitability of Criteria? The IRBA seeks to elicit feedback on implementing SAAEPS 1 by 15 December 2019.

International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements Other than Audits or Reviews of Historical Financial Information, is an 'umbrella standard' that covers assurance engagements other than audits or reviews of historical financial information. The International Auditing and Assurance Standards Board (IAASB) has issued several subject matter-specific ISAEs but has not developed a

subject matter-specific ISAE on sustainability assurance engagements.

Are you aware that ISAE 3000 (Revised) requires a practitioner who is requested to accept a sustainability assurance engagement to establish whether all the preconditions for an assurance engagement are present, before accepting the engagement? Based on feedback received from practitioners through members of the Sustainability Standing Committee, the Acceptance and Continuance – Preconditions for the Assurance Engagement phase of the assurance engagement is challenging and applied inconsistently in practice for certain types of engagements.

SAAEPS 1

SAAEPS 1 is aimed at providing practical assistance to practitioners on certain preconditions that need to be

present when requested to accept a sustainability assurance engagement in accordance with the requirements of ISAE 3000 (Revised). SAAEPS 1 deals with the practitioner determining, on the basis of a preliminary knowledge of the engagement circumstances and discussion with the appropriate parties, whether the engagement exhibits the following characteristics:

- A rational purpose,
- The underlying subject matter is appropriate, and
- The criteria that the practitioner expects to be applied in the preparation of the subject matter information are suitable for the engagement circumstances.

The preparation of appropriate engagement documentation is emphasised.

In coming to a conclusion about whether the preconditions for a sustainability assurance engagement are present, the practitioner considers all the preconditions set out in paragraph 24 of ISAE 3000 – those considered in terms of SAAEPS 1 and those beyond its scope.

SAAEPS 1 introduces guidance on the following matters under the heading 'Concepts relevant to the guidance provided in this SAAEPS 1':

- Sustainability information,
- Reporting infrastructure, and
- The underlying subject matter, subject matter information and criteria.

The guidance is supplemented by a series of questions that the practitioner may ask. After receiving feedback from the reporting entity, the practitioner may consider the responses collectively to determine whether the sustainability assurance engagement exhibits the characteristics referred to above.

Effective date

SAAEPS 1 is effective for the *Acceptance and Continuance – Preconditions for the Assurance Engagement* phase of the sustainability assurance engagement for reporting periods beginning on or after 15 December 2020. Early adoption is permitted.

The effective date of SAAEPS 1 has been deferred by two years since its issue in August 2018 to give practitioners time to prepare for and implement the guidance, receive training and provide feedback to the IRBA on any implementation lessons. The effective date also gives preparers of sustainability reports time to receive training on the content of SAAEPS 1, as it relates to them.

Questions to assist you in providing feedback to the IRBA

1. Have you/has your firm raised awareness and developed/presented training to assurance practitioners on the South African Assurance Engagements Practice Statement (SAAEPS) 1, Sustainability Assurance Engagements: Rational Purpose, Appropriateness of Underlying Subject Matter and Suitability of Criteria so that the guidance contained in SAAEPS 1 can be readily implemented by assurance practitioners? If not, what other initiatives have you/your firm taken? And/or, how do you/your firm propose to raise awareness amongst assurance practitioners about SAAEPS 1?
2. In your/your firm's preparations to implement SAAEPS 1, what initiatives have you taken to be able to provide feedback to the IRBA on lessons learnt regarding any specific aspects of SAAEPS 1? If not, what initiatives do you/your firm plan to take in order to be able to provide feedback to the IRBA on lessons learnt regarding any specific aspects of SAAEPS 1?
3. Are there specific aspects of SAAEPS 1 that you have found helpful? If so, please provide a description thereof and why.
4. Are there any specific aspects of SAAEPS 1 that create challenges to you/your firm/your client(s) for implementation in practice? If so, are there particular enhancements to SAAEPS 1 or support materials that would assist in addressing these challenges?

Should you have any feedback on implementing SAAEPS 1, contact the IRBA by e-mail at standards@irba.co.za. Please provide your feedback by 15 December 2019.



SAAEPS 1 may be downloaded from the IRBA website (www.irba.co.za).

CONCLUSION

The IRBA encourages practitioners to adopt SAAEPS 1 early, or to execute a 'dry run' using it on at least one client to be able to provide feedback to the IRBA on any lessons learnt. Preparers are encouraged to familiarise themselves with those aspects of SAAEPS 1 that relate specifically to them. Attendance of relevant training is also encouraged.

⁵ The Sustainability Standing Committee is a standing committee of the IRBA's Committee for Auditing Standards.



UPDATE ON THE LEGAL PRACTICE ACT – THE CURRENT STATE OF AFFAIRS

By **Franci Leppan**: Legal Practitioner

Since the publication of the article entitled A Profession in transition – a changing landscape in the Quarter Two 2018 SAICA Small and Medium Practices Newsletter, the Legal Practice Act (Act No.28 of 2014) (LPA) has been proclaimed and subsequently came into effect on the 1 November 2018. In consequence, the Attorney's Act (Act No. 53 of 1979) was repealed on the date of proclamation of the LPA. The purpose of this article is to provide an overview of the current position of the LPA and to evaluate the impact thus far on the legal profession.

Legal practitioners

As envisaged by the LPA, the distinction between the professions – attorney and advocate – has disappeared and practitioners are now referred to as legal practitioners. In practice, however, the distinction between the two professions is still largely observed. Advocates with trust accounts are not, at this stage, common in practice. Advocates practising with trust accounts will be subjected to the same rules that applied to attorneys with trust accounts.

⁶ Accessible on <https://www.saica.co.za/Portals/0/about/MemberServices/SMP/Jun2018.pdf>
⁷ 31 October 2018



FAILURE TO ADHERE TO THE CODE WILL CONSTITUTE MISCONDUCT AND TRANSGRESSORS WILL BE SUBJECT TO DISCIPLINARY PROCEEDINGS IN TERMS OF THE RULES AND THE LPA.

Overview of the new structure

On 1 November 2018, the Legal Practice Council (LPC) took over the regulation of all legal practitioners and effectively replaced the former provincial law societies. The former statutory provincial law societies (Cape Provinces, Free State, KwaZulu-Natal and Law Society of the Northern Provinces) now function as regional offices of the LPC. In December 2018, the LPC gazetted the draft amended Code of Conduct for public comment.

At the end of January 2019, the Chairperson of the LPC invited legal practitioners to make nominations of practising attorneys and advocates to the provincial councils of the LPC. In terms of this process, practising attorneys could only vote for attorneys and practicing advocates for fellow advocates to represent them. The election was conducted nationally by way of electronic voting. The provincial councils were established to regulate legal practitioners in their respective jurisdictions from 1 April 2019.

The LPC announced the results of the elections of the provincial counsellors to the provincial councils on 18 March 2019. With the Provincial Councils now in place, the LPC published the final Code of Conduct. The Code applies to all legal practitioners and all candidate legal practitioners, as well as juristic entities as defined, and is effective from the date of publication (29 March 2019). The Code of Conduct serves as the prevailing Code and will be enforced by the LPC. Failure to adhere to the Code will constitute misconduct and transgressors will be subject to disciplinary proceedings in terms of the rules and the LPA.

The LPC has invited legal practitioners (attorneys and advocates) to serve on disciplinary, investigation, mediation, fee assessments and exemptions committees at their provincial offices.

Legal fees

There is currently an investigation of legal fees underway by the SA Law Reform Commission. Their report will most certainly have an impact on legal fees – which is the next major subject to be evaluated by the LPC.

The issue paper was released for comment by 30 August 2019 and all legal practitioners were invited to comment in order to initiate and stimulate debate and seek proposals for reform. This process takes into account international practices, and might very well result in groundbreaking new legislation in future. A close eye will be kept on this aspect for future reference.

IN CONCLUSION

The process as prescribed by the LPA is well on its way. As envisaged by the legislature, a streamlined, consolidated legal profession has come into existence.

PROVISIONAL TAX AND THE IMPORTANCE OF ACCURATELY DETERMINING THE ESTIMATE

By SAICA Tax Division

Provisional taxpayers are required to estimate their taxable income for each year of assessment and then to make a provisional tax payment based on this estimate. In terms of the legislation two estimates must be made. The first must be made within the period of six months reckoned from the commencement of the year of assessment in question and the second, not later than the last day of the year of assessment in question.

An estimate, by its very nature, is exactly that – it is not a declaration of the actual taxable income of the taxpayer for the relevant year of assessment. These estimates are made before the end of the year of assessment of the provisional taxpayer and is based on provisional financial information. Paragraph 17 of the Fourth Schedule, to the Income Tax Act, confirms that it is the liability of the provisional taxpayer to provide an estimate for normal tax required.

A question that is often asked is: 'How accurate must an estimate be for purposes of the payment of provisional tax?'

A provisional taxpayer is penalised when he/she underestimated the taxable income for the year in question. This penalty is only levied in respect of the second estimate, and is basically levied at 20% of the tax on the amount underestimated. The basis of determining this penalty differs according to where the taxable income of the provisional taxpayer is finally assessed (more or less than R1 million).

Paragraph 20(2) of the Fourth Schedule gives a discretion to SARS to remit the penalty or a part thereof. The penalty may, however, only be remitted, if the provisional taxpayer can prove that 'the amount of any estimate ... was seriously calculated with due regard to the factors having a bearing thereon and was not deliberately or negligently understated'.

A provisional taxpayer must therefore, in respect of each one of the two estimates, do a serious calculation with

due regard to the factors having a bearing on the expected taxable income for the year of assessment.

The paragraph 19(3) request from SARS

Paragraph 19(3) of the Fourth Schedule to the Income Tax Act provides that SARS may call upon any provisional taxpayer to:

- justify any estimate made by the provisional taxpayer; or
- furnish particulars of the provisional taxpayer's income and expenditure or any other particulars that may be required.

Paragraph 19(3) allows, in the words of the current practice generally prevailing, for SARS to exercise its discretion at any time. The discretion that is referred to here is that SARS may increase the amount of the estimate made by the provisional taxpayer 'to such amount as he or she considers reasonable' – the 'he or she' is of course a reference to the Commissioner, but in practice this will be done by a SARS official. This discretion is available if SARS is dissatisfied with the estimate of the taxable income that was made by the provisional taxpayer.

In the *Explanatory Memorandum on the Income Tax Amendment Bill, 1963* it was stated in respect of paragraph 19 of the Fourth Schedule to the Act, that 'provision is made ... in subparagraph (3) for cases where unsatisfactory estimates are made.' Yes, it was in 1963 that the Fourth Schedule was introduced into the Income Tax Act, and this of course included employees' tax and provisional tax. The important point here is that the intention of paragraph 19(3) is to ensure that the estimate by the taxpayer must be a satisfactory estimate of taxable income.

Types of paragraph 19(3) requests

The legislation allows for two requests to be made by SARS. The first requires of the provisional taxpayer to justify the estimate that was made when requested to do so by SARS.



A QUESTION THAT IS OFTEN ASKED IS: 'HOW ACCURATE MUST AN ESTIMATE BE FOR PURPOSES OF THE PAYMENT OF PROVISIONAL TAX?'

According to generally prevailing practice, if 'after requesting justification of the particulars referred to above, the Commissioner is not satisfied with the estimate', SARS can then 'increase a provisional taxpayer's estimate to an amount the Commissioner considers reasonable'.

The provisional taxpayer therefore has an opportunity to justify the estimate that was made. The legislation doesn't provide details of what is required of the provisional taxpayer in order to justify the estimate. One would expect that this would include the calculation that was done by the provisional taxpayer, and if this was seriously done, SARS should be satisfied. In any event, if SARS called on the provisional taxpayer to justify an estimate and if SARS is then – after having received the justification – dissatisfied with the estimate, SARS may increase the estimate.

In practice the second kind of request is more commonly encountered. In the generally prevailing current practice (Interpretation Note 1, Issue 3 dated 20 February 2019), the following is an example of a situation in which the Commissioner's discretion under paragraph 19(3) may be exercised:

Financial results that support an increase in taxable income.

The problem is that these requests are received by taxpayers after the end of the year of assessment, and are not in respect of the financial information that was used by the taxpayer when calculating the estimate, but constitute a request for the financial information for the year of assessment. This is typically for the management accounts or provisional financial information for the year in question.

In practice, the amount of the estimate is often increased by SARS where the 'financial results' that appear in the information provided to SARS, exceeded the amount of the estimate made. But it should really be the taxable income figure based on the financial results that should support this, as the financial results would often not be the same as the taxable income for the same year. The provisional taxpayer is not asked to justify the estimate in relation to the new financial information. It is merely required to provide the information to SARS.

AN EXAMPLE

The following is an example of a request by SARS for particulars of the provisional taxpayer's income and expenditure and where SARS subsequently exercised its discretion. It is an extract from a letter that informed the taxpayer that SARS was not satisfied with the estimate that was made by the taxpayer:

Extract from the letter received from SARS

INCOME TAX: SECOND PROVISIONAL TAX PAYMENT

YEAR OF ASSESSMENT: 2019

DUE DATE: 28 FEBRUARY 2019

The following correspondence emailed to you, dated 19 June 2019.

Based on the information provided by you, I have increased XXX (Pty) Ltd's estimate of taxable income for the 2019 year of assessment, to R 29 794 244. This increase has been done in terms of paragraph 19(3) of the Fourth Schedule to the Income Tax Act No. 58 of 1962 (the Act).

Payment of provisional tax of R 450 319 is now due, calculated as follows:

Tax on above-mentioned taxable income @ 28%	R 8 342 388
Less: First Provisional Tax payment made	R 3 794 316
Less: Second Provisional Tax payment made	R 4 097 753
Amount now due	R 450 319

If payment is received by no later than 04 July 2019 neither interest in terms of section 89bis of the Act nor penalties in terms of paragraph 27(1) of the Fourth Schedule to the Act will be payable.

Unless payment is received by the aforesaid date, interest in terms of section 89bis of the Act will be imposed effective from this date to the date of payment and a 10% penalty in terms of paragraph 27(1) of the Fourth Schedule to the Act may be imposed.

From this letter it is clear that SARS didn't provide a reason for their dissatisfaction with the estimate provided by the taxpayer. The letter informs the provisional taxpayer of the increase in the estimate and indicates the date by which the amount that is due to SARS must be paid.

It is important to remember that the legislation, as is confirmed in the generally prevailing practice, allows for SARS, 'after requesting ... the particulars' of the provisional taxpayer's income and expenditure or any other particulars' to 'increase a provisional taxpayer's estimate to an amount the Commissioner considers reasonable'. This is done when 'the Commissioner is not satisfied with the estimate' – essentially then, as was stated in the Explanatory Memorandum on the Income Tax Amendment Bill, 1963, where an unsatisfactory estimate was made.

An increase by SARS is not subject to objection or appeal

Paragraph 19(3) specifically provides that the increase by SARS of the estimate is not subject to objection and appeal. But surely the provisional taxpayer must have a remedy if the taxpayer is aggrieved by the increase in the estimate that was made by SARS.

This is an administrative action by SARS. Section 33(1) of the Constitution provides that 'everyone has the right to administrative action that is lawful, reasonable and procedurally fair' and subsection (2) safeguards the right '... to be given written reasons' where rights 'have been adversely affected by administrative action'.

The provisional taxpayer must therefore, if aggrieved by a decision by SARS to increase an estimate, take the matter on review. When paragraph 19(3) of Fourth Schedule was amended, this was explained as follows in the Memorandum on the Objects of Tax Administration Laws Amendment Bill, 2015:



'If the taxpayer is dissatisfied with the estimate by SARS, there is an internal remedy available to the taxpayer under section 9 of the Tax Administration Act, 2011, to request a review of the decision by SARS. Furthermore, if liquidity concerns arise, the instalment payment provisions under that Act are also available to the taxpayer.'

The request for the decision to be reviewed

It is specifically stated in the practice generally prevailing that a 'request for such a review does not suspend

the obligation to make payment.' SARS takes this view because section 164 of the Tax Administration Act only allows them to suspend payment pending an objection or appeal.

It is further stated that 'provisional taxpayers that have liquidity concerns may apply to enter into an instalment payment agreement with SARS', but that when instalment payment arrangements are made, provisional taxpayers are liable to pay interest on the outstanding amounts.

The problem faced by provisional taxpayers in practice is what grounds to use when disputing the increase. In this instance, SARS increased the estimate to the amount that appeared in the financial results.

The estimate was made, as it is typically done in practice, a number of days, if not weeks, before the end of the year of assessment. This means that it was not, or could not have been based, on the actual information for the full year. It was the best information that was available at the time the estimate was made and it requires of the provisional taxpayer to estimate, or guess what it would be for the full year.

In the above extract from the letter from SARS, the adjustment was to increase the estimate by 5,7%. It was already said that SARS will increase the estimate that was made by the provisional taxpayer when SARS is satisfied that an unsatisfactory estimate was made. SARS must then increase it to amount that in their view is a reasonable estimate. SARS didn't provide a reason for why they considered the original estimate to be unsatisfactory or why they considered the financial results to be a reasonable estimate.

One can understand that the provisional taxpayer in instances similar to this one will be aggrieved by the increase in the estimate by SARS. As was said earlier, it is not expected that the taxpayer's estimate must be very close to the actual taxable income, or let's say, must be 95% right. It is also really just a timing difference. The taxpayer would, once the financial results are finalised after a review or an audit of the company's results, make a voluntary payment to reduce the interest that is levied under section 89quat of the Act. The purpose of the voluntary payment is not to correct an underpayment resulting from an unsatisfactory estimate, but because the taxpayer then has the correct taxable income and an additional amount will be due on assessment. The

dispute with SARS may well take a couple of months, and it may be that by the time the voluntary payment is due, the dispute had not been settled.

The taxpayer can of course request reasons from SARS for the increase in the estimate. We submit that the provisional taxpayer is really saying that the official didn't apply his or her mind to the matter. The grounds used by the taxpayer for requesting a review would then be that the original estimate was seriously calculated with due regard to the factors having a bearing thereon. The provisional taxpayer is saying that the estimate was reasonable and should not be adjusted. It is much the same as what is required when the taxpayer objects to the levying of the underestimation penalty (under paragraph 20). There, the taxpayer must have deliberately or negligently understated the estimate. The calculation of an amount of an estimate that was reasonable will not be a deliberate or negligent underestimation.

CONCLUSION

The discretion that SARS has to increase the estimate of taxable income used by a taxpayer for the purposes of paying provisional tax often results in administrative and cash flow problems for provisional taxpayers. This is because the taxpayer doesn't have a right to object to the increase and to request suspension of the amount due after the taxpayer's estimate was increased. The taxpayer can however, if aggrieved by this decision by SARS to increase an estimate, take the matter on review.

Provisional taxpayers should take care when the estimate is done. This should include a serious calculation of the estimated taxable income and must take into account all factors that have a bearing on the income. When a paragraph 19(3) request is received from SARS, the provisional taxpayer should consider including in the response not only the information required by SARS, but also an explanation of why it is considered that the estimate is reasonable. Where SARS increases the estimate, the provisional taxpayer could consider taking the matter on review.



DON'T BURN OUT THIS HERITAGE MONTH

LET TECH DO THE WORK FOR YOU

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YOU'RE IN CONTROL OF YOUR JOURNEY. MOVE FORWARD FEARLESSLY BY EMBRACING TECHNOLOGY TO DIFFERENTIATE YOUR BOOKKEEPING PRACTICE AND REMAIN RELEVANT FOR YOUR CLIENTS IN 2020.

Now it's September, you're probably longing for your December break. The last thing you feel like doing is capturing and processing slips, invoices and bank statements that your client dropped off in a shoe box.

What if you could spend the last quarter of the year focusing on your business: how to grow and differentiate your services for 2020, or simply to spend more time with family and friends? There are ways to make these processes quicker and make better use of your precious time.

What tech can do for you

Gathering, requesting and storing documents from your clients takes time, costs money and is a huge strain on resources.

The majority (86%) of SME owners say they use smartphones in their business all the time, so we're in an industry that's ideal for automation. Not only would the implementation of tech solutions save time, but it's important that firms adopt and adapt because having relevant and up-to-date information is essential. Embracing cloud accounting software will solve this.

We're constantly looking for ways to be faster, quicker, more efficient and more accurate – in this industry, change is the only constant, and let's face it: nobody got into this profession because of a love of sifting through papers.

Time is more often than not the most limiting factor in a business. The minutes spent sending e-mails to chase outstanding paperwork or typing up data from receipts quickly add up. That's where apps like Receipt Bank can make a difference.

Embracing cloud accounting technology

You can get your time back by automating the tedious tasks that take up the pre-accounting process, such as turning the collection of paperwork and the extraction of transaction information into workable data instantly.

At Receipt Bank, we reduce the amount of time it takes to collect and extract the transaction data from your customers' slips, invoices and bank statements. No more chasing, no more paper and no more manual data entry. With one snap, all your customer has to do is take a photo of their slip and submit it for extraction.

Once extracted, the transaction data appears in your online bookkeeping portal ready for publishing to the cloud accounting software of your choice. So why

should you be typing when a machine can do it for you? Imagine what you could achieve with all that extra time.

An opportunity awaits

Utilise all that extra time to win new business, upskill your staff and differentiate your client services. If your staff are looking after 10 to 15 clients, you can increase their capacity to 50 clients when using the tools that we have designed.

Technology offers an opportunity to review the way we work. If you can use automation to drop the data processing, you could win your Fridays back or do more of the creative stuff you love, like working on your business and not in your business.

⁸ Source: SME South Africa (<https://smesouthafrica.co.za/south-africas-smes-landscape-report/>)





FINANCIAL REPORTING DEVELOPMENTS

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

Lesson learnt from implementing IFRS 9 (Financial Instruments) and IFRS 15 (Revenue from contracts with customers)

The JSE has released its preliminary findings from its thematic review for compliance with IFRS 9 and IFRS 15. IFRS 9 and IFRS 15 were effective for annual reporting periods beginning on or after 1 January 2018. In light of the implementation dates of these standards, the JSE undertook to conduct a thematic review process for the application of these new standards. A sample of the JSE listed companies were identified and subjected to this thematic process.

The thematic review is a limited review focused on a specific matter or accounting standard and is not the typical comprehensive review normally undertaken by the JSE in its proactive monitoring activities. The aim of a thematic review is to advise the market of priorities for a future review and then to provide market feedback on the outcome of such reviews. The JSE has made their preliminary findings to thereby share the lessons learnt from applying the new standards with those issuers who have June 2019 interim periods. The expected date to publish the final report from this thematic review is September 2019.

The key focus areas in this thematic review process included assessing the consistency of financial information provided in the financial statements with information in other reports, accounting policies, key judgements and assumptions, and transitional requirements.

The key lessons learnt from the review of the sample entities (listed companies) include:

- With the complexities of implementing the standards, companies highlighted that the implementation project should have started earlier, and they should have provided more resources to the project.

- By not implementing a comprehensive project and focusing mainly on the larger companies in the group at the interim reporting stage, the sample entities inadvertently did not identify the fact that customer contracts within those smaller group companies were significantly impacted by the new standards. This was subsequently only identified at year-end.
- More careful consideration should have been given before inclusion in the interims of a statement that there will be no or no material/ significant impact resulting from the new standards:

% Uncertainties are likely to exist at the time of interim reporting that may only crystallise during the year end process.

% Such statements may incorrectly be made on the basis of the potential quantitative impact, without certainty of other, qualitative, implications - including the disclosure requirements of the new standards.



THE AIM OF A THEMATIC REVIEW IS TO ADVISE THE MARKET OF PRIORITIES FOR A FUTURE REVIEW AND THEN TO PROVIDE MARKET FEEDBACK ON THE OUTCOME OF SUCH REVIEWS.



The JSE also found instances where there were inconsistencies between the financial statements and the audit report, for example where the key audit matter was included in the audit report on the application of certain requirements in the standards. However, the financial statement disclosures on the same matter were thin. In these cases, the JSE engaged with the relevant companies affected.

Outlined below are some of the issues identified as they relate to the IFRS 9 and IFRS 15 accounting policy disclosures:

IFRS 9

- Accounting policies were carried over from IAS 39 – Financial Instruments: Recognition and Measurement as if they applied this standard during 2018.
- Inconsistencies between commentary around IFRS 9 in the management commentary and accounting policy section.
- Duplication of accounting policies in different sections of the financial statements.
- Accounting policies that were irrelevant to the entity.

IFRS 15

- Generic or boilerplate accounting policies.
- Duplicate accounting policies in different sections of the financial statements.
- Disclosure deficiencies relating to performance obligations and disaggregation of revenue.
- No clear identification of revenue streams that contained significant financing components where multiple revenue streams existed.
- Omission of the disclosure methods used to determine the transaction price.
- Omission of entity specific disclosures of estimates and judgements relating to customer right to return obligations.
- Inadequate disclosures relating to the determination of the transaction price.

Entities that have not adopted these two new standards and those that have not yet applied IFRS 16 – Leases, which is effective for annual periods beginning on or after 1 January 2019, are encouraged to read the

detailed JSE report on its thematic review process to proactively identify and address any gaps before year end. This includes finance teams and those charged with governance and who have oversight over the financial reporting process.



Access the report from here (<https://www.jse.co.za/current-companies/issuer-regulation/accounting-matters>).



To access IFRS 9 and IFRS 15, follow this link: (<https://www.saica.co.za/Members/ProductsandServices/iResearchToolsibreIFRS/tab-id/2840/language/en-ZA/Default.aspx>).



You can also attend the SAICA's event (<https://www.saica.co.za/brochures/?BrochureId=1800>) on 14 October 2019 where the JSE will unpack the findings from this thematic review, as well as the 2018 proactive monitoring process.

Developments on extensible business reporting language in South Africa

It has been over a year since iXBRL was implemented by the Companies and Intellectual Property Commission (CIPC). Since the implementation date of 1 July 2018, just over 12 000 companies – the majority of which are private companies – have submitted their financial statements. The CIPC continues to monitor compliance with this mandate. At the full-day conference held on 15 August 2019, the Commissioner outlined some of the consequences of failing to comply.

The XBRL Conference was part of the three XBRL training series. Members were taken through the CIPC XBRL filing process, while the technical training primarily targeted software service providers.

In addition, the CIPC has made available the updated XBRL taxonomy. The CIPC's XBRL taxonomy, training material and other XBRL related documents can be downloaded from the CIPC website: <http://www.cipc.co.za/index.php/xbrl-programme/>.

SAICA also conducted a survey during the year to understand the implementation challenges and benefits of filing financial statements via XBRL. A summary of the issues identified, and the interventions that SAICA will embark on to support members during this journey, will be incorporated in the next issue of the SMP newsletter.



ADDITIONAL TRAINEES WILL RECEIVE THE CORRECT **DEPTH AND BREADTH OF EXPERIENCE**

TRAINING OFFICE QUOTA INCREASE

By Natercia Faustino
Project Director: Training Pre-qualification

Requesting an increase in quota is a fairly simple process, but does involve the completion of an application form. The reason that an application form is required, as opposed to an e-mail to the training unit, is to ensure that the training office has met certain criteria that will allow SAICA the comfort that the additional trainees will received the correct depth and breadth of experience.

The two criteria that are expected to be address in the application are:

- 1 The training office has work of sufficient and appropriate range and depth to support the allocated quota of trainees and to allow trainees to meet the SAICA competencies; and
- 2 The training office provides trainees with experience of increasing complexity and of the necessary range and depth in the prescribed tasks and competencies.

Requests for a 50% increase or more in the training quota, will have to go to the Accreditation and Monitoring Sub-committee (AMS) for approval.



There is guidance document on the SAICA website that will assist training offices with better understanding the requirements of these to criteria. The guidance document, along with the application form can be found at:

USING ALTERNATIVE LENDING TECHNOLOGY TO HELP SMEs GROW

Sponsored Content by **Lulalend**

Access to funding has been highlighted as the main challenge affecting SME growth in South Africa. One online lender aims to change that – by using technology to bridge the gap.

In most cases, entrepreneurs start their own ventures to make a difference. This altruistic attitude towards business applies as much to the world of lending as it does to any other industry. One alternative lender, Lulalend, was founded in 2014 by business partners Trevor Gosling and Neil Welman as a way to bridge the widening credit gap for small businesses in South Africa.

The need was certainly clear. In South Africa, there is a perception among traditional lenders that small and medium-sized enterprises (SMEs) are high risk entities. As a result, applying for business finance or credit is cumbersome, and lenders often require

excessive surety or collateral. South African SMEs employ around 60-70% of the country's working population, yet more than half report accessing capital as the main challenge facing their business. The unfortunate reality is that for SMEs, approaching banks means red tape, lengthy decision-making periods and low approval rates. Smaller loans don't equate to big profits.

Alternative lenders have become a preferred avenue for the under-served players in the SME market looking to grow their businesses through funding. Not only is the application process simpler, but often no collateral is required.

Lulalend has made accessibility their biggest focus, with a digital platform that makes it quick and easy for businesses to access funding in less time than it takes to drink a cup of coffee. The risk assessment and decision-making process is completely

automated, which means applications can be approved faster.

SMEs can apply online in minutes, get approved in under 24 hours and access up to R1 million instantly.

'At Lulalend, we want to support local SMEs as much as possible and have eliminated most of the obstacles that prevent entrepreneurs from accessing finance,' explains Gosling. 'Unlike traditional lenders, we want to say yes as much as possible, which is why we've kept our online application simple and paperless.'

Capitalising on fintech

Behind the scenes exists a complex platform driven by cutting-edge technology and innovation. In the tech start-up's early days, co-founder Neil Welman drew on his expertise in financial credit risk analysis to build a strong internal team of data scientists and developers. Their mission: to design the company's artificial intelligence (AI) model. The proprietary machine-learning algorithm can accurately calculate risk without the need for manual due diligence. This, in addition to internal credit metrics, speeds up the evaluation process. It

also allows the fintech company to boast a higher approval rate than banks.

Another factor that allows Lulalend to process applications faster, is its strategic partnerships with other tech companies. By integrating with financial apps like Xero and Yodlee, which allows lenders to see an applicant's financials immediately, Lulalend can approve an application and make funding available in a matter of hours.

'As the fintech space has opened up in the South African market, it has provided small businesses with alternative finance options in order to build their business. Accessible finance will undoubtedly play a significant role in the growth of this sector,' concludes Gosling.

Lulalend was a finalist in FNB's Business Innovation Awards in 2017 and recently announced an additional round of investor funding amounting to \$6.5 million. With the latest round of funding, Gosling aims to drive increased SME growth through easy access to business finance and credit.

For more information visit www.lulalend.co.za



LULALEND HAS MADE **ACCESSIBILITY** THEIR BIGGEST FOCUS, WITH A DIGITAL PLATFORM THAT MAKES IT QUICK AND EASY FOR BUSINESSES TO ACCESS FUNDING **IN LESS TIME THAN IT TAKES TO DRINK A CUP OF COFFEE**



CAN ACCOUNTANTS CHARGE INTEREST ON OVERDUE ACCOUNTS?

By Viola Sigauke: Project Manager Regulatory reporting

The National Credit Act (NCA) 34 of 2005 defines an 'incidental credit agreement' as an agreement, irrespective of its form, in terms of which an account was tendered for goods or services that have been provided to the consumer, or are provided to a consumer over a period of time and either or both of the following conditions apply:

- ▶ a fee, charge or interest became payable when payment of an amount charged in terms of that account was not made on or before a determined period or date; or
- ▶ two prices were quoted for settlement of the account: the lower price being applicable if the account is paid on or before a determined date, and the higher price being applicable if the account is not paid by that date.

Attorney Stephen Logan states on the IOL Personal Finance website, that 'credit is classed as incidental only when there is no intention from the outset of charging interest other than when it follows a default on standard payment terms. If the service provider

gives 30 days to make payment, then incidental credit may be charged on day 31 and thereafter.'

Logan further states that 'when interest is charged from the day on which the service is rendered or immediately afterwards, it is not incidental credit but "actual credit", and only registered credit providers can enter into such agreements with clients.' If the accountant, as a credit provider, only supplies incidental credit, then the accountant is not required to register as a credit provider.

Accountants are reminded that there are numerous other types of credit that do, in fact, require registration as a credit provider which is set out in section 40 of the NCA.

The Minister, in terms of Section 103 of the NCA, prescribes the interest rates that can be charged in terms of an incidental credit agreement. The current interest rate of 2% per month, which accumulates to 24% per annum, can be charged on default payments within an incidental credit agreement.

Hence, accountants can charge interest on overdue accounts if the arrangements meet the definition of incidental costs.

⁹ <https://www.iol.co.za/personal-finance/my-money/banking/overdue-bills-max-interest-is-2-a-month-1557008>



NEED TO KNOW - TECHNICAL UPDATES

CIPC NOTICES

Notice 42 of 2019:

Reason(s) for removal of director by the shareholders in the notice meeting.



Notice 44 of 2019:

CIPC 2019 XBRL Taxonomy for public consultation.



Notice 45 of 2019:

Commencement of deregistration notification to companies and close corporations.



Notice 52 of 2019:

Introduction of Compliance Checklist Button on e-Services Website.



IESBA PROPOSES CHANGES

The IESBA proposes changes to promote role and mindset expectations of professional accountants.



U-FILING SAICA FAQ

Frequently asked questions (FAQs) for members and associates of SAICA on U-Filing.



SUCCESSION PLANNING

Succession Planning Guide

This guide aims to encourage firm owners to acknowledge the importance of succession planning and to start taking action with regard to their own succession plan and how one should go about planning for succession.



Practice continuation agreement

This guide serves to provide members with a basic reference tool when considering and compiling a practice continuation agreement.



AUDITING

Auditing Accounting estimates

The requirements, challenges and practical resources for auditors.



ISA 540 (revised) implementation support: flow charts and diagram

The International Standard on Auditing 540 (Revised) implementation working group has developed two flowcharts and a diagram to support the understanding and effective implementation of the standard.



DRAFT Q&A ON THE IFRS FOR SMEs STANDARD PUBLISHED FOR PUBLIC COMMENT

The IFRS Foundation is calling on stakeholders to comment on its draft Q&A on the application of the IFRS for SMEs Standard.



SMALL BUSINESS IS THE FOUNDATION FOR ECONOMIES WORLDWIDE

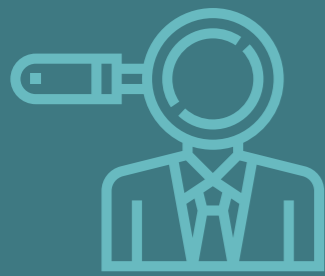
According to the World Trade Organization, small and medium-sized enterprises represent over 90% of the business population, 60-70% of employment and 55% of gross domestic products in developed economies.



IRBA RULES REGARDING IMPROPER CONDUCT (REVISED 2019)

The Independent Regulatory Board for Auditors (IRBA) draws the attention of all registered auditors to changes to the IRBA rules regarding improper conduct.





PRACTICE MANAGEMENT

ENCOURAGING SUCCESSFUL EXIT STRATEGIES - PASSING THE BATON

'Failure to plan is planning to fail' is often an overused phrase applicable in many different circumstances and situations.

EIGHT STEPS TO ESTABLISH A FIRM RISK MANAGEMENT PROGRAMME

Risk management is critical for all firms, including small and medium-sized practices.

HOW TO PRICE CLIENT ENGAGEMENTS AND INCREASE FIRM PROFIT

This is one of a three-part series addressing approaches to fee increases and value pricing.

DEVELOPING YOUR OWN SPECIALIZED NICHE PRACTICE

Focusing on one type of client can help firms develop unique expertise that distinguishes them from their competition.

HOW TO GET STARTED WITH VALUE PRICING

Value pricing isn't just a method for pricing your services, it entails a whole new business model.

BENEFITS OF INTEGRATED REPORTING FOR SMALL BUSINESSES AND NOT FOR PROFIT ORGANISATIONS

Communicating the key factors that affect SMEs ability to create value through an integrated report can help build much-needed stakeholder trust around past and future performance.

DO YOU HAVE WHAT IT TAKES TO START YOUR OWN FIRM?

For starters, you have to be willing to work long hours to drum up clients and build the practice.

WHAT MINDFULNESS CAN DO FOR A TEAM

Sometimes conflicts can be productive: when teams are hammering out ideas and striving to find the most effective route to a shared goal, people will often express concerns and offer differing perspectives.

TOP INFLUENCING SKILLS ACCOUNTANTS NEED

This article provides some useful influencing techniques for accountants.

CAN YOU MEASURE THE IMPACT OF MENTAL HEALTH PROGRAMS AT WORK?

To thrive in the 21st Century, businesses know they need to address the impact of mental health in the workplace.

HOW FIRMS OF ANY SIZE CAN INNOVATE

There is a big difference between talking about innovation and implementing it at your practice.

THE IMPORTANCE OF CLIENT SELECTION AND RELATIONSHIP MANAGEMENT

This is the first of a three-part series on client selection, agreeing terms of engagement, knowing your client and client classification.

TEN STEPS TO SUCCESSFUL FIRM RISK MANAGEMENT

This article covers ten steps for successful risk management.



TECH TALK - TECHNOLOGY

New technologies, ethics and accountability

This thought leadership report delves into the ethics of new technology.



Leveraging the four Cs to automation and advisory

Rapidly advancing technology capabilities and cloud ecosystems have and will continue to eliminate much of the data entry of accounting and tax preparation.



Are you ready for AI-based audit?

Firms must decide when to invest in Artificial Intelligence (AI) or which AI-enabled tool provides the best return on investment.



Let's talk technology

This publication provides an update on efforts to appropriately address the technology-related issues in recently and soon-to-be issued standards and exposure drafts.



How we successfully implemented AI in audit

The AI we use is machine learning, where the machine has built-in algorithms that help it to learn based on transactions it is fed.



The CA's guide to technology

A recent report by global technology firm estimates that by 2020 accounting, tax, payroll, auditing and banking tasks will be fully automated using artificial intelligence-powered technologies.



Taking control of cyber risk

Cybercrime is an escalating problem that demands constant attention to mitigate against financial and reputational risk.



Cyber and the CFO

The cyber threat is one of the most talked about issues that businesses face today. Yet, the level of awareness of the risk and the types of threats that organisations face is low.



How data analytics, AI & automation are being integrated into external audit - Parts 1&2

This podcast provides insights into the developments which are currently taking place at the frontier of auditing.



The passionate practitioner: developing the digitalised small and medium practice

The rapid growth of accounting technology offers significant opportunities for accountants to remodel their practices.



Spotlighting innovation in small practices

Members in small practices across the world are showing willingness to innovate and adapt.

