Small & Medium Practices

quarterly news.....

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SMALL & MEDIUM PRACTICE NEWSLETTER • QUARTER 4 • 2018

inside...

every issue

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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TAKING OWNERSHIP OF YOUR ACCOUNTING PRACTICE : *Developing Relationships*

"The most important single ingredient in the formula of success is knowing how to get along with people."

— Theodore Roosevelt —

By Neale Roberts

We all continually hear about communication as a vital factor for success. However, within the business environment, without effective communication (and all the competencies that surround it) there cannot be any success.

Often the professional working arenas place a strong focus on the technical aspects of the job, with the assumption that the human elements will take care of themselves. As the Vice Chairman of Pepsico, Roger Enrico, put it: "The soft stuff is always harder than the hard stuff. Training and perseverance can perfect professional skills, yet something more is required when building and maintaining relationships."

For those who question the importance of relationships in business, here are some statistics that may make you rethink your position:

- The cost of renewal of an existing customer is only 11% of the cost to acquire a new customer
  (Skok and Pacific Crest survey, 2016)
- A 5% increase in customer retention can increase the company's profitability by 75% (Bain & Co., 2016)
- Improving either retention or monetisation and 2 - 4 times the impact of acquisition (which has a 3,32% impact) on growth (Price Intelligence study run by Patrick Campbell, 2016)
- If a company loses 2-3% of their customers on a monthly basis, they need to grow between 27-43% per annum to maintain their revenue levels.
  (Dave Gerhardt, 2016)

Why do relationships matter so much? The answer is simple, we like to work with those we know and like. For many business owners and managers, there is a comfort in having a professional that we trust who we can call on when we need something done. As much as we can calculate the cost of having to find new clients, so too do our clients have to calculate the cost of finding a new provider.

The starting point must be your own intrapersonal communication. This being the conversations that you have with yourself which build your emotions, perceptions, beliefs and attitudes. Your intrapersonal skills refer to how you solve problems, how you manage your emotions, and how well you understand yourself – including your strengths and weaknesses. It is only by knowing yourself that you are then able to branch out in cultivating meaningful relationships with others. Knowing yourself also facilitates how you want to interact and be seen by your clients.

In terms of building working relationships, there are some core factors that come into play. These include: making your relationship meaningful with your client, asking questions and being curious about their business. If you deliberately focus on the elements of a relationship, your client retention will be safe. These factors include: being honest, routinely calling on clients, listening to their needs, doing what you said you would, being proactive in their interests, not overpromising and under-delivering, and accepting accountability for results.

Merchants (A Dimension Data Company) published research that showed 89% of customers will drop a service if their needs are not seen to in a satisfactory manner, and that 55% of customers would be willing to pay more for a better customer service experience (December, 2017). Service and relationships matter. If your client knows your calibre of service, trusts who you are and knows that you provide a value-added service to them, your relationship should remain solid and strengthen over time. Communication is one of the most powerful tools available in the business arena, use it wisely and use it well.

"Building fruitful and lasting relationships starts with abandoning the conventional "me"-based thoughts that are so prevalent in the business world and so easy to slip into in our personal lives."

— Michelle Tillis Lederman, 11 Laws of Likability —

PROPOSALS REGARDING THE DEREGISTRATION OF NON-COMPLIANT TAX PRACTITIONERS

By Associate Professor David Warneke
(Head: Income Tax Technical at BDO South Africa) and Member of SAICA National Tax Committee

The Draft Tax Administration Laws Amendment Bill of 2018 ('the Draft Bill') proposes amendments to section 240 of the Tax Administration Act ('the Act'), dealing with the power of SARS to deregister tax practitioners. The proposal is that a person may not register as a tax practitioner and, alternatively, that SARS may deregister a registered tax practitioner if, among other things, the tax practitioner or would-be tax practitioner has outstanding tax debt or outstanding tax returns, for an aggregate period of at least six months during the preceding period of twelve months. For the proposal to apply, the tax practitioner must have failed to demonstrate that he or she has been compliant for that period or to remedy the non-compliance within the period specified in a notice issued by SARS. No time period is prescribed in the Act in regard to the notice. Outstanding tax debt in relation to which payment arrangements have been made with SARS, or the recovery of which is subject to suspension, or that is subject to a compromise agreement with SARS or that does not exceed R100 would be excluded from triggering the deregistration in these circumstances. A similar exception is proposed if arrangements have been made with SARS for the submission of the outstanding returns. The consequence of deregistration or non-registration as a tax practitioner is that, for limited exceptions, one may not provide tax advice to another person or assist in the completion of another person's return if one is not registered with SARS as a tax practitioner.

The inherent fairness of the above proposals is questionable, both from a policy and practical perspective. The fairness of a proposal that singles out only the tax practitioner profession based on the "own house in order" principle is open to criticism. If the tax practitioner profession is subject to this regulation, why, to use a literal example, should an architect whose own house does not comply with building regulations be allowed to continue to design others' houses, or why should a plumber whose own house does not comply with plumbing regulations be allowed to continue to trade? The same is true for an attorney against whom the State has brought an unproven case. Why then should he or she be allowed to continue to practice? In relation to the latter analogy, there is a "guilty until proven innocent" principle inherent in the proposal in the sense that it would be sufficient for deregistration if the SARS system indicated non-compliance, without SARS having to prove the alleged non-compliance in a court. Also, if tax practitioners are to be prevented from practising their profession if their tax affairs are allegedly not in order, why should the same sanction not apply to doctors, plumbers, architects and others whose tax affairs are not in order?

The proposal goes to the fundamental Constitutional right to choose one's trade freely. In terms of section 22 of the Bill of Rights the right to practice one's trade is not absolute in that it may be subject to legislative regulation. As with any other law, such regulation would need to comply with the rationality principle. It is arguable that the proportionality principle should also apply to the above proposal on the basis that it constitutes a limitation of the Constitutional right to choose one's trade freely, with tax practitioners effectively being barred from their chosen trade if the proposal applies. Therefore, the limitation must be reasonable and justifiable in an open and democratic society. If a tax practitioner were to be prevented from earning a living because his or her tax return were outstanding, it is doubtful whether these requirements would be met.

On a practical level, it is well known that SARS's systems are far from perfect. Judging by recent media reports, the e-filing system is on the verge of collapse. Compliant taxpayers routinely reflect as non-compliant on SARS's system. Although in an ideal world, if a notice is issued and received by a tax practitioner, he or she will have enough time to investigate and, subject to the satisfaction of SARS, rectify the alleged non-compliance or successfully contest its accuracy, the SARS world is by no means an ideal one.

The current proposal are less draconian than those that appeared in the Draft Bill. The Draft Bill envisaged a period of default of three months during the preceding period of six months and required that the taxpayer must have failed to remedy the non-compliance within the period specified in a notice issued by SARS. There was no explicit alternative whereby the tax practitioner could demonstrate that he or she had in fact been compliant. Although the revised requirements are an improvement on the previous version, they still represent a "guilty until proven innocent" approach and still infringe on the right to choose one's trade freely. It should also be borne in mind that human intervention would be necessary on the part of SARS in order to determine whether or not the tax practitioner had succeeded in demonstrating compliance or in remedying non-compliance. Depending on the processes put in place by SARS and the efficiency and number of SARS employees allocated, the period specified by SARS may lapse without satisfactory resolution of cases, which could result in the deregistration of the tax practitioner.

Fair or not, the proposal looks likely to be promulgated in its revised form and sounds a wake-up call to registered and prospective tax practitioners to ensure that their own tax affairs are in order. The proposal is set to become effective from the date of promulgation of the Bill.

UNDERSTANDING CONTINGENCY FEE AGREEMENTS

By Franci Leppan

The subject of contingency fee agreements often elicits a negative response from both the public and media. In the past few years, a number of controversial matters have received significant attention in the press, probing the purpose, basis and ethics pertaining to contingency fee agreements. The mis-conception that members of the public are "ripped off" by attorneys with questionable ethics practices are often the premise of these controversial reports.

AN OVERVIEW OF CONTINGENCY FEE AGREEMENTS

Contingency fee agreements are regulated by the Contingency Fees Act 66 of 1997 (the Act). In terms of the Act, "normal fees" are those fees normally charged by the attorney to provide legal services and contingency fees are fixed fees charged by the attorney for legal services provided to a client. In terms of common law, contingency fee agreements are held to be unlawful. However, the Act allows for the legitimising of such agreements, subject to strict controls and clearly set out criteria.

Contingency fee agreements allow individuals without the necessary financial means to self-fund certain types of complicated and specialised litigation by entering into litigation on an outcome basis. The agreement entered into entitles the attorney to a portion of the capital amount awarded to the client, contingent upon the outcome of the case only – "no win, no fees". For this reason, these agreements are often referred to as outcome-based agreements.

A number of highly specialised attorneys, particularly in the fields of personal injury and medical malpractice, regularly enter into these types of agreements. The expertise of the attorney, coupled with the inherent risk of litigation makes this a potentially high-risk endeavour. Such specialist attorneys often engage with highly qualified experts such as specialist doctors and fund these experts' costs at their own risk in furtherance of the client's claim.

FORMAL REQUIREMENTS FOR COMPLIANCE

Section 3 of the Act sets out the formal criteria to be fulfilled when entering into a valid and enforceable contingence fee agreement and requires that such agreement:

- always be in writing[1] ; and
- be signed by both the attorney and its client[2]

Section 3(3) sets out the proceedings to which the agreement relates, as well as the necessary legal averments pertaining to the rights of the client, the definition of success in the circumstances (including partial success), calculation of amounts payable and the client's right to cancel the agreement.

Section 4 of the Act deals with settlement offers and the requirements to be met in these circumstances. This section requires that if a client accepts a settlement proposal, an affidavit has to be filed with the court. If the matter is not presented before a court, such affidavit is to be filed with the Law Society or relevant regulatory body.

Strict compliance with the Act is essential and an agreement which falls foul of such compliance will be held to be invalid.

[1] Section 3(1) of the Act
[2] Section 3 (2) of the Act

A MYTH – DEBUNKED

A number of attorneys operate under the misapprehension that an attorney is automatically entitled to 25% of the client's capital claim. This could not be further from the truth.

An attorney who enters into a contingency fee agreement needs to fulfil not only all the criteria as set out above, but also comply with the Act when calculating the fees that they are entitled to. An incentive fee, or a so-called "success fee" to compensate the attorney for the risk involved in taking on the matter contingent upon its outcome and concluding it successfully, is condoned by the Act.

An attorney has to draft a detailed bill of costs at the conclusion of a matter, setting out all relevant fees claimed. Such fees, duly quantified, may then be doubled (normal fee plus 100%) to provide for the "success fee".

It is imperative to note that an attorney would only be entitled to claim EITHER 25% of the claim amount received, OR its normal fees plus 100%, whichever is the LESSER. An automatic entitlement to 25% of the claim amount is prohibited by the Act and can't be enforced.

AUDITING CONSIDERATIONS

Attorneys may not simply agree with clients to charge contingency fees. There are strict requirements set out in the Act that must be followed before an attorney can charge contingency fees. The existence of contingency fee agreements may give rise to specific fraud risk factors that the auditor should be alert to, including attorneys charging fees in excess of what is permitted in terms of the Act.

When dealing with audits of attorney trust accounts which include matters involving contingency fee agreements, a close scrutiny of any purported agreement is vital and ensuring that the calculation of fees is in strict compliance with the Act is essential.

It is common practice for an attorney to charge an hourly fee rate. The fee is often negotiated with the client and agreed upon upfront in an engagement letter. However, many small practitioners do not have engagement letters and negotiate the fee after the matter has been settled. In line with the requirement of the Act, which allows the attorney to charge the lower of double the normal fee or the 25% of the capital award, the auditor may encounter practical issues in auditing contingency fee arrangements where the attorney has not kept time records of the hours spent on the case.

An affidavit, setting out the exact calculation of fees debited, to be deposed by an attorney, should be required in circumstances where there appears to be non-compliance with the Act. The Act prohibits entering into contingency fee agreements at the conclusion of a successful matter in an attempt to justify higher fees.

IN CONCLUSION

Contingency fee agreements are prevalent in Road Accident Fund cases as well as medical negligent claims. Contingency fee agreements are tightly regulated agreements and the audit of attorney trust accounts that include matters involving such agreements requires specialised knowledge. Auditors are cautioned to exercise the appropriate level of professional scepticism and approach the audit of legal cases involving contingency fees with the necessary competence and due care.

National Credit Act 34 of 2005

under what circumstances is a credit provider obliged to register?

By Viola Sigauke,
SAICA Project Manager: Governance and Non-IFRS Reporting

A case in the Gauteng Division brought about an interesting judgement from the Supreme Court of Appeal (SCA). In *De Bruyn vs Karsten and Others* (929/2017) the SCA outlines circumstances in which a credit provider is obliged to register.

The SCA states that this appeal is yet another example of the inconsistencies and resultant confusion to which the National Credit Act (NCA) has given rise. The pertinent question in this matter is under what circumstances is registration as a credit provider in terms of the NCA obligatory.

The appellants are an elderly couple, married in community of property. Their business is the sealing of industrial leaks that was first set up in 1984 which resulted in the formation of three interrelated entities.

The respondent was like a son to the appellants and was introduced to the appellants' business with a view to him one day taking over the business. The respondent gradually became more involved with the businesses until he was appointed as the technical director in 2008. Eventually the respondent held a substantial number of shares in both companies and 50% member's interest in the close corporation.

In 2012 there was a falling out between the appellants and the respondent over operational issues in the business that led to a decision to part ways. The initial proposal was that the respondent purchase the appellants' interest in all the entities. A price of R2 500 000.00 was set and an option agreement concluded, valid until 1 March 2013. However as the respondent was unable to obtain the necessary finance, the appellants then made an offer to purchase the respondent's interest in all three entities for the price of R2 000 000.00.

The offer of R2 000 000.00 to be paid in instalments were drawn up. In all three sale agreements the appellant bound themselves as sureties and co-principal debtors and in clause 8 of each addendum they undertook to register a covering bond over their immoveable property. There was much debate over whether the three agreements of sale amounted to a single credit facility or were three self-standing credit agreements.

The respondent was not registered as a credit provider in accordance with section 40 of the NCA at the date of the conclusion of the agreements of sale. The appellants did not register the covering bond within 60 days but eventually effected registration of the covering bond in early 2014.

The appellants defaulted on the instalment payments and the respondent then alleged a breach of the agreements of sale. The appellants' defence was that the agreements are null and void due to non-compliance with the NCA.

It was first communicated by the appellants through their attorneys, on 3 September 2014, that the agreements of sale constituted agreements as contemplated by section 8 of the NCA. Accordingly, it was contended that the respondent was obliged to have been registered as a credit provider at the time the agreements were concluded on 26 April 2013. His subsequent registration on 27 November 2013 was insufficient. The non-compliance to sections 40(3) and 40(4) of the NCA rendered the agreements, as well as the mortgage bond registration and the suretyship undertakings, so it was argued, unlawful and void.

The question was raised on whether the agreements of sale were indeed arms-length transactions? Section 4(1) states that the NCA shall apply to every credit agreement where the parties are dealing with each other at arm's length. Section 4(2)(b) sets out the circumstances in which the parties are not dealing at arm's length. Section 4(2)(b)(iv)(aa), in relevant part, reads as follows:

"(b) in any of the following arrangements, the parties are not dealing at arm's length:

(iv) any other arrangement –

(aa) in which each party is not independent of the other and consequently does not necessarily strive to obtain the utmost possible advantage out of the transaction"

The SCA came to the conclusion that this agreement, although it might have commenced through the relationship between the parties, in the end the relations soured and the parties communicated via their respective attorneys. The agreements therefore were at arm's length and the NCA would apply.

Section 40 of the NCA sets out the circumstances under which registration as a credit provider is applicable. The section, in relevant part, provides that:

1. A person must apply as a credit provider if–
   (a) that person, alone or in conjunction with any associated persons, is the credit provider of at least 100 credit agreements, other than incidental credit agreements;
   (b) the total principle debt owed to that credit provider under all the outstanding agreements, other than incidental credit agreements, exceeds the threshold prescribed in terms of section 42(1).
2. In determining whether a person is required to register as a credit provider – ……..
3. A person who is required in terms of subsection (1) to be registered as a credit provider, but who is not so registered, must not offer, make available or extend credit, enter into a credit agreement or agree to do any of those things.
4. A credit agreement entered into by a credit provider who is required to be registered in terms of subsection (1) but who is not so registered is an unlawful agreement and void to the extent provided for in section 89."

Section 40(1) was amended by the National Credit Amendment Act 19 of 2014 to delete any reference to 100 credit agreements. It now reads as follows:

> "A person must apply to be registered as a credit provider if the total principal debt owed to that credit provider under all outstanding credit agreements, other than incidental credit agreements, exceeds the threshold prescribed in terms of section 42 (1)."

Therefore the amount of credit provided is now the sole determining factor to ascertain whether a credit provider is obliged to register.

A plain reading of section 40(1)(b) makes it clear that a person must register as a credit provider if the total principal debt exceeds the prescribed threshold in terms of section 42(1). At the time this section provided that the Minister must, at intervals of not more than five years, determine an applicable threshold of not less than R500 000, for the purpose of determining whether a credit provider is required to register in terms of s 40(1). There is no dispute that R500 000 was the applicable threshold at the conclusion of the sales agreements. The threshold has since been amended to R0 with effect from 11 November 2016.

The SCA concluded that the requirement to register as a credit provider is applicable to all credit agreements once the prescribed threshold is reached, irrespective of whether the credit provider is involved in the credit industry and irrespective of whether the credit agreement is a once-off transaction. The SCA did state that they believe that the wording of the NCA leads to the conclusion, but they do acknowledge that this could be a drafting error that parliament should correct.

The consequences of this judgment is that SAICA members should therefore be aware of the duty to register as a credit provider when providing credit to the public or staff, should the agreement meet the requirements of a credit agreement and the person / entity receiving the credit meets the definition of a consumer in terms of the NCA. Failure to register could lead to the credit agreement being void and not enforceable.

Impact of new IFRSs ON IFRS FOR SMES

Bongeka Nodada
Project Director: Corporate Reporting

IFRS 9 – Financial Instruments and IFRS 15 – Revenue from Contracts with Customers became effective from 1 January 2018 whilst IFRS 16 – Leases becomes effective from 1 January 2019. Entities are permitted to early adopt these standards. Entities should take note that IFRS 9, 15 and IFRS 16 are not applicable to entities applying IFRS for SMEs. The International Accounting Standards Board (IASB) is expected to commence its review of IFRS for SMEs from 2019 by publishing a Request for Information. The review will focus on, amongst others, the need to revise IFRS for SMEs for IFRS 9, IFRS 15 and IFRS 16. Thus the 2015 version of the IFRS for **SMEs Standard** is still applicable.

Climate Change Bill Series No.2:
An Introduction to the Bill and its likely impact

By Jeremy Grist CA(SA)

In addition to the introduction of the National Environmentally Sustainable Development Framework (NESDF), together with the National Adaptation Strategy (NAS), the Minister is also required to determine a National Greenhouse Gas Trajectory for the country. This has been the missing link to the current activity around the introduction of various regulations that bring into being the need for all qualifying carbon emitters to register and report annually their carbon emissions. The Paris Agreement, endorsed by the South African government in 2016 and supported through the submission of the Nationally Determined Contributions (NDCs) – the strategies and actions that the country would take to ensure that its contribution to the sustained reduction in global carbon emissions within our own needs for social upliftment and an improvement in the overall quality of life for all South Africans.

WHAT IS REQUIRED TO BE DONE?

In terms of the proposed Act, the Minister is required to determine a national greenhouse gas emissions trajectory that must (S11(a)):

- "Specify a national greenhouse gas emissions reduction objective through the quantitative descriptions of the volumes of greenhouse gas emissions expected to be emitted over a specified period in the Republic;
- Be informed by relevant and up-to-date information regarding the total current and projected volumes of greenhouse gases emitted in the Republic; and
- Be consistent with the objectives of the Act and the Republic's International obligations."

This determination of a national greenhouse gas emissions trajectory is a critical connector between the NESDF and the NAS, in that it provides the country carbon emission reduction goals. The proposed Act also states that this trajectory is binding on all spheres of government. As mentioned above, the proposed Act also requires the introduction of a National Environmentally Sustainable Development Framework and the National Adaptation Strategy throughout all spheres of government. The result is that there will be the development of a significant number of Climate Change Response Plans that the Minister must gather, review and thereafter publish a Synthesis Report on Climate Change and Adaptation that will show the progress towards achieving the country's International Obligations.

A fundamental measure of progress in the setting of a National Greenhouse Gas Emissions trajectory is the implementation of this national greenhouse gas emissions trajectory. Since the endorsement of the Paris Agreement in 2016, the government has introduced regulations that identify the six gases that are required to be measured and reported and the Technical Guidelines that provide the basis on how to measure and report emissions into the National Inventory. In order to achieve the sustained reduction in carbon emissions, government needs to align the various policies, legislation and regulations across government departments so as to ensure alignment. A review of the level of alignment was undertaken in 2014 and the report titled "Climate Change Mitigation Policy Mainstreaming Report" considered the level of alignment in Agriculture, Forestry and other Land Use (AFOLU), Energy, Industry, Transport and Waste. The review established that amongst the primary pieces of policy, legislation and regulation that there is some alignment in certain areas and a significant amount of work to be done in others.

Creating alignment within government will then provide the platform from which business can determine how to ensure that its role can be a significant one. Business is already very active in determining how to assess, measure, report and obtain approval on their carbon emissions. This is being driven by the identification of those sectors who have processes that create the largest number of emissions and hence are being asked to submit carbon budgets. The planned introduction of the carbon tax which requires an accurate determination of reported carbon emissions in order to compute the carbon tax liability is regarded as the most cost-effective approach to achieving a sustained reduction in carbon emissions in the country.

THE IMPORTANCE OF SECTORAL EMISSIONS TARGETS

While the determination of a national greenhouse gas trajectory is important, the understanding of how this trajectory can be achieved will be based on the implementation of appropriate Sectoral Emissions Targets. The identification of the 15 Production Processes that require the submission of Pollution Prevention Plans is an early indication of those sectors where an Emissions Target will be set. There have already been in-depth discussions with these key sectors to ensure that they commit to a target for the sector. Examples of these sectors include Cement, Glass, Ammonia and Carbon Black Production. Therefore, implicit in the determination of the Sectoral Targets, is the need to engage with business. However, for business to agree to a Sectoral Target they will need to evaluate the associated investment costs associated with the need to meet an agreed Target.

The Sectoral Emissions for a Sector or Sub-sector must, in consultation with the Ministerial Committee on Climate Change, must include the costs and benefits of the Target, be based on the best available science and have the best available mitigation options. The determination of the best mitigation options can only be achieved through the engagement with business and be consistent with the greenhouse gas emissions trajectory. The proposed Act requires that the Ministers for each respective Sector or Sub-sector is responsible for the implementation of the Targets. Thereafter the various Ministers are also required to report, annually, on progress made to the President.

THE IMPORTANCE OF CARBON BUDGETS TO A COMPANY

In addition to the setting of Sectoral Emissions Targets, the proposed Act provides for the allocation of a Carbon Budget to a company. The issue of carbon budgets has been subject to a research project which looked at how the implementation of a carbon budget would be integrated with the proposed carbon tax. In essence the key question being asked was that if a carbon budget was allocated to a company, then should they be paying any carbon tax? This question is not answered by this Act, but there may be some basis for this exemption from the carbon tax. The intention of introducing this aspect of the greenhouse gas emissions trajectory is to determine a threshold above which a carbon budget would be applied to a "person" (which includes a juristic person). In effect, this section of the proposed Act gives the Minister, who must consult first, the right to determine a threshold above which a person must submit a carbon budget.

The section of the proposed Act increases the scope of those companies who previously only included those subject to the Regulation on Priority Air Pollutants, which identified the 15 processes[3] for which they'd have to have to submit a Pollution Prevention Plan, by requiring them to prepare and submit to the Minister for approval and implementation a greenhouse gas mitigation plan which describes the mitigation actions that will be implemented in order to comply with the carbon budget.

This proposed Act is farreaching in its goal of ensuring that government is able to coordinate its efforts to provide a legislative and regulatory environment, integrated across government, that will enable business to assist in the delivery on the national greenhouse gas trajectory. This is one of the few opportunities where business and government can collaborate to ensure that South Africa delivers on its global commitment in the area of Climate Change. It is in all of our interests to contribute to this goal.

3 National Environmental Management: Air Quality Act, 2004 (Act No.39 of 2004), Declaration of Greenhouse Gases as Priority Air Pollutants

The Lessons of HISTORY

Mike Francis
Founder and CEO of Practice Engine Group Limited

We live in interesting times, extremely interesting times. There is an ancient curse that says, "May you live in interesting times". By reference are we then cursed?

We are only cursed if we do not learn the lessons of history. Mankind has an uncanny habit of repeating his/her past mistakes over and over again. This is happening in both the IT industry and the Accounting profession. The lessons that are plain to be seen, are not being acted upon.

A BRIEF HISTORY LESSON

The world of information technology (IT) as it is known at present, would appear to work in major and minor cycles. These last for years or maybe decades, however what was once good, is generally replaced over time. Strangely enough, many features repeat themselves after a few cycles.

THESE CYCLES IN THE AUTHOR'S OPINION ARE BASICALLY AS FOLLOWS:

1 MAINFRAMES

At the start of the technology age, all computers were mainframes, either custom built such as Colossus, Eniac, etc. or were ranges of machines such as the IBM 360 and beyond. During this time there were numerous suppliers of this equipment – all well-known names in their day. IBM, Burroughs, Sperry-Rand, Honeywell, Siemens-Nixdorf, ICL, Fujitsu and others. Other than IBM who remain a major force in IT, the question to ask is where are the others today?

2 MINI COMPUTERS

In the mid to late seventies, a new phenomenon in the world of computing emerged – the mini computer. These were essentially small mainframes, and anyone who worked on an IBM S/34 will confirm it was not mini! This equipment used cut-down operating systems or embraced the new open system of Unix. Suppliers such as IBM, Burroughs, DEC, Data General, Wang, ICL, Honeywell, HP, Sun Microsystems and others were all active in the industry. Besides the obvious name in the list, the same question is asked – who remains?

3 PCS

In the late seventies and early eighties, yet another of the main cycles began. Rising out of hobby approaches, the personal computer was born. Leading the charge was a small company named Apple. For the operating system and tools side, a small startup named Microsoft burst on the scene. By the end of the eighties, both had grown into huge multi-million dollar organisations, and spawned a completely new industry. The number of clone manufacturers that sprung up was crazy, and very few of these remain. Where is Novell, and does anyone remember Banyan Vines? Both were networking solutions for those who don't know.

4 GUI AND WYSIWIC

The evolution from text to GUI and WYSIWIG interfaces occurred during the time of the PC. Whether it was an improvement in terms of speed and ease of use has never been determined. There were many excellent systems, general and specific to the accounting profession that were text based. Those that did not transfer to this new style have all disappeared. Remember WordPerfect, probably the most widely used word processor? It did not move to a GUI in a sensible time or style, and has disappeared. The same goes for Lotus 123. In the professional market a very large company, CSM, with products such as TaxMan and MinuteMan did not survive. These products owned their markets and disappeared soon after.

5 THE WORLD WIDE WEB

Everything changed with the ascendance of the web. Leading the charge was a browser named Netscape, which again owned the market. The communities of CompuServe, AOL and MSN withered, and with a change in direction, Internet Explorer basically killed Netscape. The web world has been expanding ever since, with new entrants such as Google, Yahoo, Skype, Facebook and the like. During the short tenure of the WWW, a good number of previously highly used products and services have disappeared.

6 MOBILE, DEVICES AND THE CLOUD

This is the current cycle, and we are still fairly early into it. This change really gathered pace when Steve Jobs launched Apple iPad. The deliberate exclusion of Flash from the device (and by implication Silverlight), changed the face of development. At present, most vendors, and particularly those to the profession, are all making out that they are cloud-based and all understand the SaaS model. Those performing this under terminal emulation are not real cloud systems. The cloud should allow the running of applications on any device.

The very simple conclusion is that not all suppliers will weather the changing paradigms. This has been seen time and again in the past. Large and successful organisations have disappeared, simply because they did not change quickly enough or radically enough.

Microsoft have just announced a major internal revamp – showcasing Windows 10, and Office 2016. The shipment of PCs is trending upwards. Apple are sitting on $142 Billion in cash. Investor confidence is reflected in share prices which keep going up.

We are living in interesting times. Throughout all of these changes, many of the incumbents tried to ensure that their old systems were usable in the next cycle. Terminal emulation for the PC so it could act as a dumb terminal on the mainframe, extended the lives of both mainframes and mini computers. Inevitably, these systems have been changed, mostly into client-server type applications.

These client server applications are being extended by the costly and environmentally unfriendly use of terminal servers and desktop virtualisation, all of which create a server PC for the attaching PC. This means more electricity is being used, and therefore heat being generated. While they undoubtedly work, it is using emulation to extend life.

The winners will be the applications that can be happily and simply consumed on all of the devices that are being used today. PCs, laptops, tablets, and smart phones are all candidates. When one can buy a full-powered consumer device for £25 (Raspberry Pi) which runs free Linux and for the future Windows 10 and supports a browser that can consume input, we are looking at a completely new world.

We are being freed from the shackles of the GUI thought police, where all applications had to look and work the same, to amazing user experiences, normally being achieved on the mobile devices. These improved user experiences will usher in an era of workbeing fun again.

THE PROFESSION

This history lesson should not be lost on the profession. History tells us that suppliers who do not move to the new world will disappear. The profession has embraced technology to a greater or lesser degree, and has generally been very well served with choice.

Two primary routes to follow are to source all applications from a single vendor on the promise of an 'integrated' system; or to go with what is known as 'Best of Breed'. For a central database it is often necessary to compromise on a number of applications – for best of breed there is the compromise on so-called integration.

There is no perfect answer, just the best choice for each firm and their requirements.

It is critical that firms listen to the message of history, both as it relates to technology, but equally to the best approach and processes to running the firm. Constantly being hypnotised by the wrong things, will not move you forward.

need 2 KNOW

NOTICE 62 OF 2018: RE-DEPLOYMENT OF ANNUAL RETURN "HARD-STOP" FUNCTIONALITY
The "AR Calculator" is now included as part of the new functionality to be rolled out on 01 October 2018.

NOTICE 65 OF 2018: NOTICE OF APPOINTMENT OF BUSINESS RESCUE PRACTITIONER
The above form and supporting documents are required by the CIPC for acknowledging the appointment of a business rescue practitioner.

NOTICE 66 OF 2018: GUIDELINES FOR THE APPLICATION FOR LICENSING AS A BUSINESS RESCUE PRACTITIONER (COR126.1)
Note that Notice 51 of 2016 has been withdrawn and replaced by Notice 66 of 2018.

NOTICE 67 OF 2018: AUTOMATION OF PAPER-BASED DISCLOSURES FOR COMPANIES AND CLOSE CORPORATIONS
To improve service delivery, CIPC is currently in the process of automating the current "paper-based disclosure" process.

NOTICE 69 OF 2018: VOLUNTARY AUDITS
CIPC reached the decision that the contents and mandate as per the aforestated notice on Voluntary Audits still stand.

NOTICE 70 OF 2018: SUBMITTING VALID EMAIL AND CELL PHONE NUMBERS FOR DIRECTORS OF COMPANIES AND MEMBERS OF CLOSE CORPORATIONS
Valid and correct contact details for directors or members must be provided at all times and not that of another director, member, and company secretary or service provider.

DRAFT LEGISLATION
This page contains bills/other notices that has been published for public comment that we believe is relevant to SAICA members and associates.

IAASB MODERNISES AUDITING OF ACCOUNTING ESTIMATES IN SUPPORT OF AUDIT QUALITY
The IAASB released its revised standard for the audit of accounting estimates and related disclosures (ISA 540 (Revised)).

GUIDE TO USING ISAS IN THE AUDIT OF SMES, FOURTH EDITION
This guide helps firms efficiently and proportionally apply the International Standards on Audit for small- and medium-sized enterprise audits.

TAX PRACTITIONERS WITH THE IRBA AS A RECOGNISED CONTROLLING BODY
The IRBA intends to levy a separate additional annual fee which will be payable by tax practitioners who have elected the IRBA as their Recognised Controlling Body.

COMPARISON IESBA TO SEC AND PCAOB
This video clip examines the differences between the new IESBA Code independence provisions for non-audit services and the SEC and PCAOB independence rules.

THE ONCE AND FUTURE AUDIT
Chuck Landes looks both back and ahead to track where this core service has been and where it's going.

IFRS FOR SMES: WHO CAN USE IT? HOW DOES IT DIFFER FROM FULL IFRSS?
Answers to FAQs on IFRS for SMEs, covering which entities are eligible, the benefits of using IFRS for SMEs and some key differences to full IFRSs.

IFRS FACTSHEETS
Accessible and practical assistance on international financial reporting issues.

need 2 KNOW

THE INTERNATIONAL CODE OF ETHICS FOR PROFESSIONAL ACCOUNTANTS: KEY AREAS OF FOCUS FOR SMES AND SMPS

In early April 2018, the IESBA released a completely rewritten and revamped Code of Ethics for professional accountants (effective from June 2019).

AFIAAR ADOPTS STRATEGY FOR CONTINENTAL INTEGRATION OF ACCOUNTING AND AUDITING REGULATION

At the African Forum of Independent Accounting and Auditing Regulators (AFIAAR) the organisation adopted its vision and strategy for the future of independent accounting and auditing regulation on the continent.

PROFESSIONAL SCEPTICISM: THE HEART OF AUDIT

Scepticism it not just at the heart of auditing, it is in the heart of most auditors.

AUDITING PROFESSION ACT AMENDMENTS 2018 CONTINUED REGULATORY IMPROVEMENT FOR PUBLIC PROTECTION

Cabinet approved the draft Amendments to the Auditing Profession Act (APA) and referred these to parliament for consultation as part of the Financial Matters Bill 2018.

ISA 540 (REVISED), AUDITING ACCOUNTING ESTIMATES AND RELATED DISCLOSURES

The IAASB revised its standard on accounting estimates, ISA 540 (Revised), to respond to the rapidly evolving business environment.

SURINAME: PAO DEVELOPMENT TO SUPPORT A FUTURE GROWTH

Strong, sustainable and relevant professional accountancy organisations (PAOs) are essential to growing and strengthening any country's economy.

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NEW GLOBAL SMP SURVEY REVEALS KEYS TO GROWTH FOR SMALL ACCOUNTING FIRMS

The 2018 IFAC Global SMP survey found that accountants working in Small and Medium-sized Practices (SMPs) are embracing technology to better serve clients and attract and retain top talent.

POST ACCREDITATION GUIDANCE DOCUMENT

SAICA Training Officer Guidance document – preparing for your post-accreditation visit

IRBA RESPONDS REGARDING ACTIONS AGAINST AUDITORS OF VBS

The IRBA confirms that it began monitoring the VBS Mutual Bank developments from the time the bank was placed under curatorship by the SARB.

TECH talk

How Data Analytics Contribute to Business Growth
Data analytics are providing benefits to businesses from the beginning of a start-up, facilitating expansive growth, and exploding them into large, formidable companies.

How Robotic Process Automation Is Transforming Accounting and Auditing
Technology continues to change society at a rapid pace, and accounting and auditing are by no means immune.

IFAC TAG Webinar on Data Analytics
Emerging technologies and digitalisation are reshaping business models, finance and accounting practices.

Accounting Technology Tomorrow
Artificial intelligence, blockchain, chatbots and cybersecurity; each of these is transforming society and having a significant influence on the accounting profession.

Technically, your planning practice could be better
Ignoring the value technology can add to your practice carries a heavy price in lost efficiency and opportunity.

Blockchain Adoption and Absolute Immutability
Educating ourselves on the technology and understanding the challenges now will prove beneficial when transitioning to blockchain technologies in the imminent future.

Staying ahead of the disruption curve: Technology solutions 2018 podcast series
As the capabilities of modern-day technology evolve and advance, this will change the way you work and think.

Accounting trends of tomorrow: What You Need to Know
Most accountants already use digital tools and are optimising processes to go paperless. Yet as technology continues to advance and further automate numerous functions, conversations turn to the prospect of humanless accounting.

Blockchain Might Remake Accounting
Tom Hood Discusses Big Data and Blockchain Technology.

Artificial Intelligence: Opportunities, Risks and Implications
The rapid developments in AI have engendered high expectations of the benefits it can deliver for business and for society at large.

The potential of blockchain: What accounting execs need to know
Major players in the financial services industry are already seeing benefits from the technology, using blockchain as a game-changing "trust protocol" for financial transactions and keeping pace with regulatory processes.

SAICA social media guideline
This Guideline covers the use of social media by all SAICA members, in both a personal and professional capacity.

PRACTICE MANAGEMENT

The (Un)certain Future for Small Advisory Firms
Many analysts have predicted massive consolidation in our industry.

Audit Quality Indicators
Quality control is about controlling the quality of what is delivered.

Culture and purpose in financial services
Firms need to boost trust, create socially responsible products and prevent future financial crises.

Understanding reports on financial statements: Audit, review and compilations
Help your clients learn about financial statements and the different levels of service you can provide with respect to communications on the financial statements.

Governance form vs. function
Governance is not an end in itself, but a tool for delivering outcomes.

Strengthening Assurance for Non-financial Information
People need reliable corporate information to decide if they will invest, buy products or sign an employment contract.

Directors worldwide concerned about more than the bottom line
Findings from the Global Director Survey 2018 show poverty and income inequality as the top concern for directors around the world, closely followed by taxation and government spending, and the cost of healthcare.

Accounting Education Insights: Unconscious Bias and Professional Scepticism
This article examines the underlying theory of how unconscious bias arises, the relevance of implicit or unconscious bias on professional scepticism and practical tips on reducing accountants' unconscious bias.

3 Ways small firms can turn challenges into opportunities
Firm owners wear many hats — human resources, business development, marketing and service providers. As the pace of change speeds up, it's hard to manage the day-to-day and prepare for the future.

Best-practice Principles for Audit Tendering
The guides share good practice and tips from experienced members across the public and private sectors to help audit committees (or equivalents) get the quality audits they need.

PRACTICE MANAGEMENT

Leading agile transformation: The new capabilities leaders need to build 21st-century organisations
To build and lead an agile organisation, it's crucial that senior leaders develop new mindsets and capabilities to transform themselves, their teams, and the organisation.

What Does a Future-ready PAO Look Like?
This report encompasses insight from the recent Professional Accountancy Organisation (PAO) Development Committee meeting to identify how PAOs can future-ready their operations to support the accountancy profession of the future.

Get with the programme
Practices need to define and develop the leadership skills required for the role.

Good Talent Management Key to Future-proofing Finance
In the turmoil of the modern age, having this agile talent pool is more important than ever.

Why we love emotionally intelligent leaders
People tend to gravitate to leaders who exhibit emotional intelligence, even if it's difficult to explain why exactly.

Technically, your planning practice could be better
Cutting through the noise and knowing which technologies are best for your planning practice can be complicated, but ignoring the value technology can add to your practice carries a heavy price in lost efficiency and opportunity.

Global Business Expansion Presents Opportunity for SMPs
SMPs need to consider whether diversification into new advisory services could be the key towards the sector's future success.

How employee directors add value
Boards lie at the heart of everything that is right or wrong with companies. When a board works well, this is reflected in the company's success and reputation. The reverse is also true.